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Board of Directors'
Report

**PLAINTIFF'S
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Vol. II
Q96-3 - Q96-4

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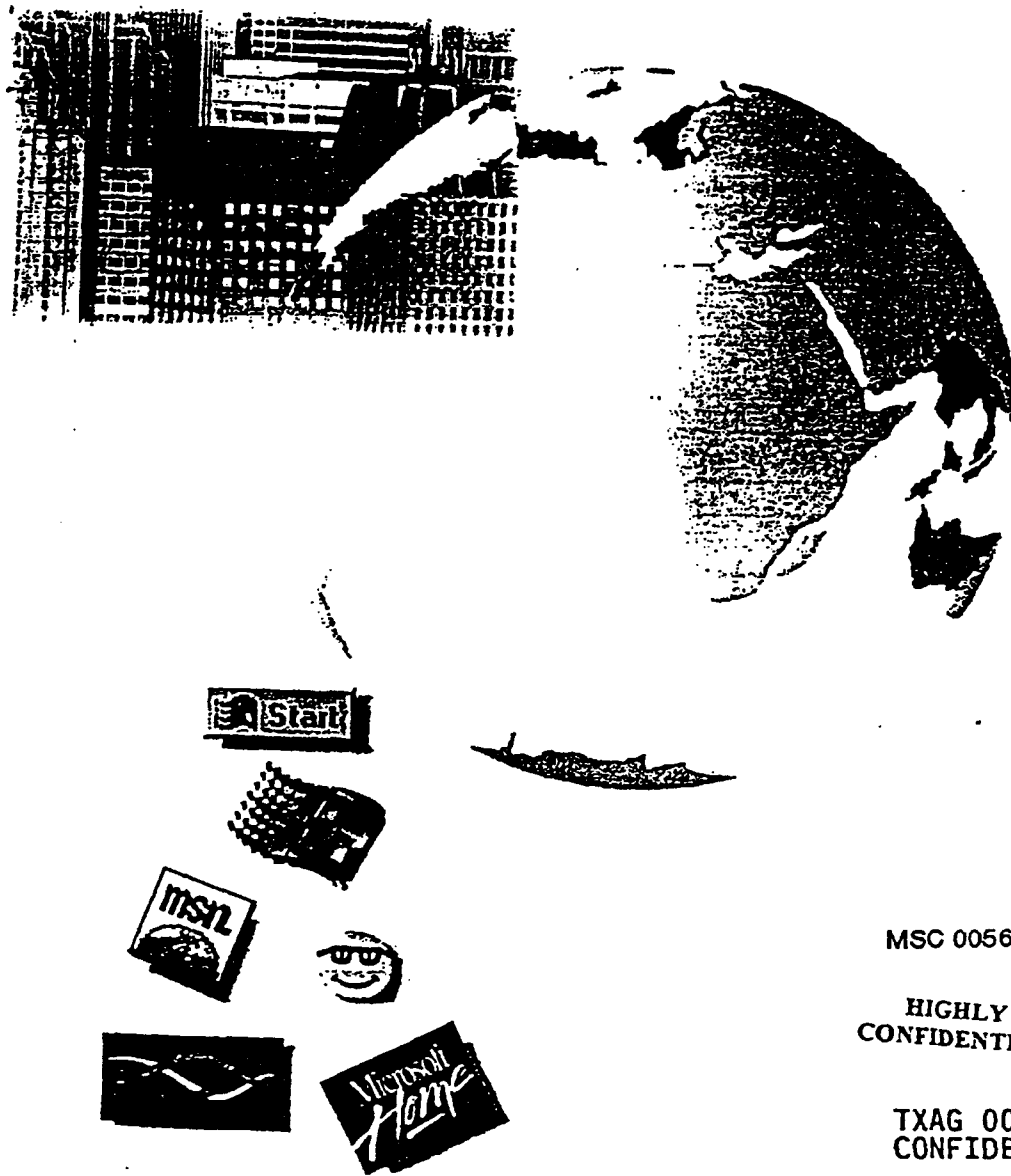
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Q96-3 BOARD OF DIRECTORS' REPORT

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This report was prepared with Word for Windows 7.0. All tables were created in Excel 7.0 and either embedded in the document or linked to master spreadsheets. Additionally, most of the channel and product group tables were generated via automation from the general ledger. Each of these automated tables is made accurate in its calculations by using data at a lower level than the rounded amounts shown in this report. These lower level amounts are used to calculate variances and are then rounded and displayed in this report. Therefore, individual amounts are rounded perfectly but totals and variances may not foot precisely. All other tables have individual numbers that may be rounded. While these individual numbers may not be precisely to supporting schedules, they will foot exactly as shown in this report.

(NOTE: Revenue is "net" unless otherwise stated. Gross revenue is net of returns.)

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EXECUTIVE SUMMARY

Microsoft Corporation Income Statement

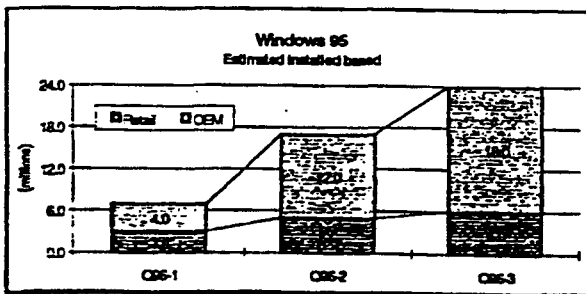
EXTERNAL GAAP RESULTS

(in millions, except earnings per share)	Q96-3		Q96-2		Growth	Q95-3		% OF PY
Net Revenue	\$2,205	100%	\$2,195	100%	0%	\$1,587	100%	139%
Operating expenses:								
Cost of revenue	295	13%	330	15%	(11%)	235	15%	126%
Research and development	364	17%	313	14%	16%	219	14%	166%
Sales & marketing	685	31%	690	31%	(1%)	516	32%	133%
General & administrative	87	4%	78	3%	14%	68	4%	128%
Total cost & expenses	<u>1,431</u>	65%	<u>1,409</u>	64%	2%	<u>1,038</u>	65%	138%
Operating Income	774	35%	786	36%	(1%)	549	35%	141%
Interest income - net	86	4%	78	3%	13%	48	3%	179%
Noncontinuing items	11	0%	30	1%	(63%)	0	0%	nm
Other expenses	(7)	0%	(7)	0%	-	(5)	0%	nm
Income before income taxes	864	39%	885	40%	(2%)	592	37%	146%
Provision for income taxes	(302)	(14%)	(310)	(14%)	nm	(196)	(12%)	155%
Net Income	<u>\$562</u>	25%	<u>\$575</u>	26%	(2%)	<u>\$396</u>	25%	142%
Earnings per Share	<u>\$ 0.88</u>		<u>\$ 0.90</u>		(3%)	<u>\$ 0.63</u>		139%
Weighted avg shares outstanding	639		638			626		

	Q96-3	Q96-2	Q96-1	Q95-4	Q95-3	Q95-2	Q95-1	Q94-4
Net revenue (in millions)	\$2,205	\$2,195	\$2,016	\$1,621	\$1,587	\$1,482	\$1,247	\$1,293
Operating income (% of net revenue)	35%	36%	35%	33%	35%	35%	35%	38%
Net income (% of net revenue)	25%	26%	25%	23%	25%	25%	25%	28%
Earnings per share	\$0.88	\$0.90	\$0.78	\$0.58	\$0.63	\$0.60	\$0.51	\$0.59

Q96-3 Highlights

- Net revenue as reported externally was \$2.20 billion, even with Q96-2 and an increase of 39% over the comparative quarter in FY95. Year over year growth occurred across all product divisions, with most notable increases in sales of Office and Office Pro, Windows 95, and the BackOffice suite of products. Unearned revenue related to Windows 95 and maintenance contracts totaled \$545 million at March 31, 1996.
- An estimated 24 million units of Windows 95 have been sold to end users since launch, with an estimated 6 million sold through the retail channel and about 18 million through the OEM channel.
- Cost of revenue declined to 13.4% of net revenue versus 15.0% in the prior quarter primarily due to reduced charges for excess inventory. A similar decline year over year reflects a continued shift to CD based product and a higher mix of revenue from OEM, Select and other license agreements.
- R&D costs representing 17% of net revenue, grew 16% over Q96-2 and 66% over the prior year. This growth reflects increased investments across all product divisions, particularly in Consumer, Microsoft On-line Services (MOS) and Business Systems. Sales and marketing expenses declined versus the prior quarter primarily due to reduced support costs following the launch of Windows 95.
- Net income for the quarter totaled \$562 million, a 42% increase over Q95-3 and a 2% decrease from prior quarter earnings of \$575 million. Earnings per share increased 39% over Q95-3 to \$0.88 but decreased 3% from prior quarter EPS of \$0.90. Adjusting for the Q96-2 non-recurring gain of \$0.03 on the sale of DK, quarter over quarter earnings were flat.



AUTHOR: SCOTT BOGGS (SBoggs)

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Notes to Consolidated Management Reports

The consolidated management P&L is based on functional responsibility and prepared in accordance with MAP (Microsoft Accounting Principles). These results may not include the impact of certain adjustments and reclassifications as required by Generally Accepted Accounting Principles (GAAP) for external reporting. Significant differences between financial statements prepared for internal management use and externally reported results include:

- Revenue for internal management reports is generally recognized "as billed." Under GAAP, net revenue includes adjustment for certain billed, but unearned revenue, such as a portion of operating system revenue that will be recognized over the product life cycle. Conversely, certain revenue that is earned but not yet billed such as unreported OEM and Select revenue is also recognized for external purposes.
- Q96-3 management reports include a Desktop 95 channel reserve. The channel reserve is based on estimates provided by sales management of all Windows 95 and Office 95 inventory remaining

in the channel as of March 31. For external reporting, these reserves have been adjusted to reflect channel inventory in excess of normal levels with potential for return.

- For external reporting purposes, the net cost of MOS operations is included as research and development expenses until such time as MOS has profitable gross margins. For internal management reporting, MOS cost of operations are included in cost of revenue as a business channel.
- For external reporting purposes, all product marketing related activities are classified as a sales and marketing expense. For internal reporting purposes, product marketing departments and related marketing expenses are included in product development.
- Non-operating income, expenses, non-continuing items, and income taxes are excluded from internal management reports.

REVENUE SUMMARY

Gross Product Revenue Q96-3 (As shipped Revsum categories, in millions)								
	Gross as Billed	DT 95 Resv	Adjusted Gross	Plan	FY95	Total	Plan	FY95
Desktop applications	1,028.3	\$ 79.8	\$ 1,108.1	\$ 944.7	\$ 803.2	45%	117%	138%
Win 95, MS Plus(PSD)	272.2	199.5	471.7	454.1	-	19%	104%	nm
BackOffice (BSD)	273.3	-	273.3	157.3	100.4	11%	174%	272%
Win 3x, MS-DOS (PSD)	272.4	-	272.4	243.2	461.9	11%	112%	59%
Developer products	118.7	-	118.7	115.9	67.0	5%	102%	177%
Consumer software	105.6	-	105.6	121.6	78.1	4%	87%	135%
Consumer hardware	85.4	-	85.4	98.2	79.7	3%	87%	107%
Microsoft Network	21.0	-	21.0	30.9	-	1%	68%	nm
Other	(6.1)	-	(6.1)	50.5	41.6	0%	(12%)	(15%)
Gross revenue	\$ 2,170.7	\$ 278.3	\$ 2,449.9	\$ 2,216.5	\$ 1,631.9	100%	111%	150%

- Consolidated Q96-3 gross revenue adjusted for Desktop 95 reserves (i.e., on a sell-through basis) was \$2.45 billion, 11% ahead of plan and 50% ahead of the prior year quarter. Year to date, adjusted gross revenue was \$7.10 billion, 11% over of plan and 56% ahead of FY95. Positive variances in the quarter are primarily due to continued strong sales of Office and Office Pro, BackOffice products particularly with Windows NT increasing more than 3x over the same quarter last year, and Windows 95.
- Q96-3 Desktop Applications revenue totaled \$1.11 billion, 17% better than plan and 38% over prior year. Sell-through of Office 95 (excluding certain license revenue not reported platform specific) was \$247 million significantly less than plan of \$470 million (53%), offset by continued strong sales of 16-bit versions of Office, totaling \$589 million or 241% of plan. For the year, DAD revenue totals \$2.99 billion, 11% above plan and 31% above FY95, with \$188 million remaining in the Office 95 channel reserve.

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- Q96-3 Personal Operating Systems gross revenue totaled \$744 million or 6% better than plan, including a \$200 million adjustment for returns and sell through of Windows 95 reserved in Q96-1. Sell-through of Windows 95 totaled \$453 million for the quarter and \$1.18 billion year-to-date, 97% of plan. Year-to-date PSD sales total \$2.37 billion, or 9% above plan and 194% above prior year, including \$175 million reserved for remaining Windows 95 channel inventory.
- Q96-3 Business Systems revenue grew 172% over Q95-2 to \$273 million and exceeded plan by 74%. Windows NT (Servers, User Licenses and Workstations) generated over 53% of total BSD revenue at \$145 million. Business Systems revenue for the year totals \$656 million, 66% over plan and 144% over FY95.
- Consumer revenues were under plan by 13% for the quarter, but grew 21% over prior year. Better than plan sales of Sidewinder Joystick, Mouse and Works were offset by slow sales of keyboards, Bob and personal interests software. Consumer revenue for the year totals \$652 million, 3% below plan and 18% over prior year.
- Q96-3 Developer revenue exceeded plan by 2% with strong sales of Visual Basic and MSDN. Sales for the quarter totaled \$42 million, 16% above plan and 125% above prior year.
- Net revenue from MOS was \$20 million during the quarter with more than 1 million subscribers. Year to date MOS revenue totals \$30 million, about 75% of plan.

Net Channel Revenue (in millions)	DT 95		Net Revenue	FY95		Net Rev as % of		
	DT95 adj	Reserve		Plan	FY95	Total	Plan	FY95
North America FG	\$ 464.1	\$ 142.8	\$ 606.8	\$ 558.3	\$ 428.9	26%	107%	141%
Europe FG	451.8	116.1	567.9	525.0	425.8	24%	108%	133%
ICON FG	113.3	13.2	126.4	137.4	98.3	5%	92%	129%
Far East FG	278.0	7.2	285.2	296.4	137.7	12%	96%	207%
Total finished goods	1,307.1	279.3	1,586.4	1,527.0	1,090.8	67%	104%	145%
OEM	\$ 727.2	-	727.2	557.3	451.1	31%	130%	161%
MS Press	18.0	0.0	18.0	17.4	10.9	1%	103%	164%
MS Online	19.8	0.0	19.8	26.6	-	1%	74%	nm
Software & other	8.9	-	8.9	10.3	10.7	0%	86%	84%
Net revenue	\$ 2,080.9	\$ 279.3	\$ 2,360.2	\$ 2,138.7	\$ 1,563.5	100%	110%	151%

- Q96-3 net FG revenue totaled \$1.59 billion, 4% better than plan. North America and European regions exceeded plan by 7% and 8% respectively due to higher than plan sales of Office and Office Pro. On a year-to-date basis, net FG revenue totals \$4.68 billion, 4% better than plan and 48% better than FY95, with \$363 million reserved for remaining Desktop 95 channel inventory.
- Q96-3 OEM revenue exceeded plan by 30% with record net revenues of \$727 million. Windows 95 accounted for more than 48% of the total. Year-to-date OEM revenue totals \$1.91 billion, 32% over plan and 61% over FY95. OEM is expected to reach \$2.67 billion in gross revenue for the year.
- MS Press revenue of \$59 million for the year is 134% over FY95 mainly due to strong sales of Windows 95 and Windows NT related titles.
- Year over year growth for the quarter in major sales location was led by Japan with an increase of 118%, followed by Italy (46%), the United States (43%) and Germany (37%).

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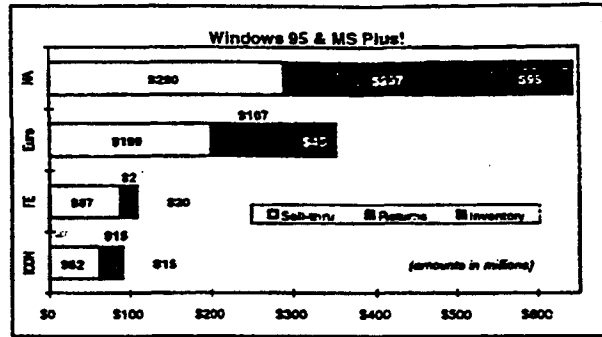
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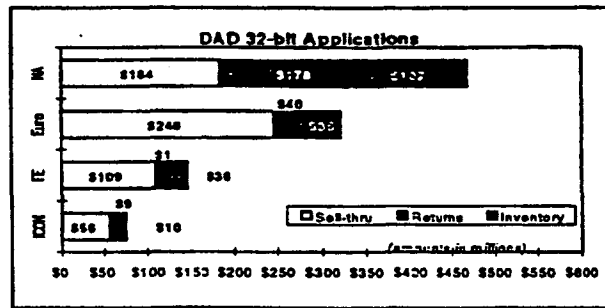
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Desktop 95 Channel Reserve

- Channel inventories of Desktop 95 product are estimated to be \$363 million at the end of the quarter.
- Shipments of Windows 95 and MS Plus! into the finished goods channel totals \$1.19 billion year to date. As shown to the right, an estimated \$638 million has sold through to end users and \$175 million remains in the channel, primarily in North America and Europe. Returns of Windows 95 and MS Plus! total \$382 million. North America had returns of \$257 million or 40% of total shipments and Europe had \$107 million or 30% of total shipments in returns.



- Year-to-date shipments of 32-bit DAD products total \$1 billion, with an estimated sell through of \$596 million. North America returns approximate 38% of total shipments. Inventory remaining in the channel is estimated to be \$188 million.



Key Pricing Summary

- Pricing was generally consistent with plan as all material variances were driven by mix factors. The table shown to the right highlights worldwide finished goods revenue per license for several major products. (See Appendix for complete revenue and pricing summaries by region.)

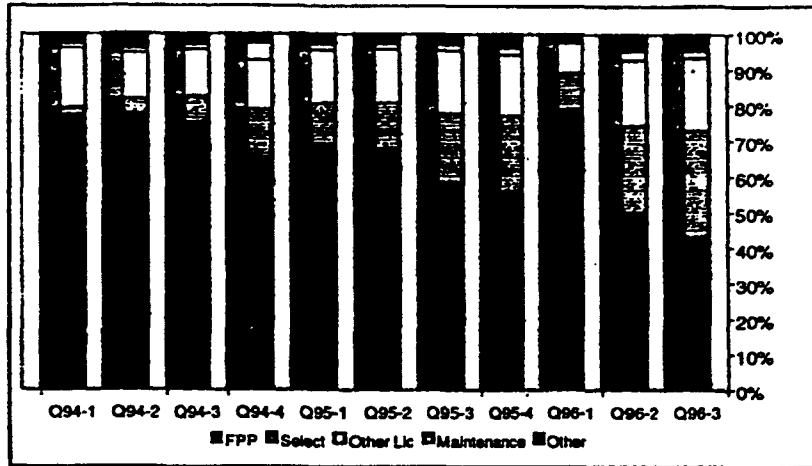
	Actual	Plan
Office -new users	\$246	\$252
Office -existing users	\$158	\$157
OfficePro -new users	\$259	\$302
OfficePro -existing users	\$201	\$199
Windows 95	\$90	\$85
Windows NT -servers	\$528	\$504
Windows NT -workstations	\$181	\$210

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License Mix



- Sales of full-packaged product (including upgrades) as a percent of finished goods revenue continues to decline following the sell-in of Desktop 95 in Q96-1.
- Select license (including maintenance agreements) revenue totaled \$420 million during the quarter, 23% more than Q96-2. Total license revenue made up more than 50% of the FG channel.

Foreign Exchange Impact on Consolidated Net Revenue

(in millions)	Q96-3 Variance vs. Plan			Year to Date Variance vs. Plan		
	Business	FX	Total	Business	FX	Total
North America FG	\$37.6	\$0.9	\$38.5	(\$103.7)	\$2.5	(\$101.2)
Europe FG	20.8	22.2	42.9	36.5	71.2	107.7
ICON FG	(11.7)	0.7	(11.0)	(11.1)	3.1	(8.0)
Far East FG	28.3	(39.4)	(11.1)	229.9	(66.8)	163.1
OEM, Other AT & Channels	162.2	0.0	162.2	460.4	(0.1)	460.3
Variance to plan	\$237.2	(\$15.6)	\$221.5	\$612.0	\$9.9	\$621.8

- The table shown above summarizes the impact of actual foreign exchange rates compared to plan for Q96-3 and year to date. Actual revenue compared to plan at budgeted exchange rates resulted in a positive business variance of \$237 million to net revenue in the quarter.
- The US dollar continues to be weaker than planned against most major European currencies resulting in positive variances for the quarter.
- Subsidiaries with major variances include France (\$5 million), Germany (\$4 million), Sweden (\$3 million) and Italy (\$3 million).
- A stronger than planned dollar-to-yen exchange continued to prevail in Japan, resulting in a \$39 million negative foreign exchange variance for the Far East FG channel. The dollar strengthened from an average of 101 Yen to a dollar in December to an average of 106 Yen in March. The FY96 budgeted rate is at 90 Yen.

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COST OF REVENUE

Cost of Revenue - Q96-3					
	Sales	Wghted	Cost of Revenue		
	Mix	Ave Cost	Actual	Plan	Prior Year
By Channel					
North America FG	25.7%	4.0%	15.6%	17.9%	18.3%
Europe FG	24.1%	3.0%	12.7%	13.3%	13.7%
ICON FG	5.4%	1.5%	28.4%	19.8%	25.0%
Far East FG	12.1%	1.4%	11.6%	18.7%	15.6%
Total Finished Goods	67.2%	10.0%	14.9%	16.7%	16.8%
OEM					
Other (includes MSN)	2.0%	1.8%	92.8%	70.7%	76.2%
	100.0%	13.2%	13.2%	15.2%	13.8%
By Product Division					
Desktop Apps	42.5%	4.5%	10.5%	12.8%	12.6%
Consumer	8.5%	3.6%	42.0%	37.7%	32.7%
Personal Finance	0.1%	0.0%	19.9%	53.3%	54.6%
MS On-line	0.8%	1.5%	181.3%	108.3%	0.0%
Applications & Content	51.9%	8.5%	18.3%	15.7%	16.8%
Business Systems					
Personal Operating Systems	12.1%	1.3%	10.5%	14.6%	15.8%
Developer	30.7%	1.1%	3.7%	6.1%	3.1%
Consumer Systems	4.7%	0.8%	18.4%	19.5%	20.4%
Platforms	0.4%	0.0%	4.1%	26.4%	69.0%
	47.9%	3.3%	6.9%	9.5%	8.4%
Other (primarily MS Press)					
	0.3%	0.4%	143.5%	33.1%	-18.0%
	100.0%	13.2%	13.2%	15.2%	13.8%

- Cost of revenue in the finished goods channel in Q96-3 was two points better than plan. This was due to a substantial decline in product costs which were offset in part by higher than plan inventory reserves for Desktop 95 products. Total product costs were four points better than plan primarily due to higher than plan mix of CD-ROM media and licensed product sales. The higher mix of CD-ROM media and licenses also contributed to the decrease in cost of revenue from the prior year.
- Cost of revenue in the OEM channel for Q96-3, was a point better than plan primarily due to lower than planned mix of keyboard and mouse sales. Cost of revenues increased from the prior year due to increased hardware sales and inventory reserves for excess keyboard inventory.
- All product divisions, with the exception of Consumer and MOS, had lower cost of revenue compared to plan due to the continued shift to CD-ROM media and license sales. Consumer Division cost of revenue, as a percent of revenue, was four points higher than plan due to charges taken for excess keyboard inventory and the impact of price cuts on many products beginning in October.
- Year-to-date CD-ROM mix by division compared to plan and last year is illustrated in the following table.

	Actual	Plan	Prior Yr
Personal Systems	54%	21%	1%
Desktop Applications	39%	12%	5%
Consumer	74%	55%	43%
Business Systems	56%	34%	39%
Developer	71%	25%	23%
Total	56%	37%	19%

- For the year, total cost of revenue is 14.4% versus plan of 15.3% due to the same factors noted during the quarter.

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OPERATING EXPENSES

Operating Expenses (see note)						
(in millions)	Q96-3	Plan	% of Plan	FYTD96	FYTD95	% of py
People costs	\$426.8	\$449.4	95%	\$1,224.7	\$929.1	132%
Contingent staff and outsourcing	164.0	152.8	107%	448.1	179.1	250%
Infrastructure costs	130.2	151.0	86%	378.9	345.0	110%
Marketing expenses	175.1	240.2	73%	673.6	417.9	161%
PSS/MCS cost recovery	(69.9)	(76.5)	91%	(191.9)	(87.0)	221%
Third party product development	98.4	44.5	221%	182.0	91.4	199%
Other expenses	39.2	62.4	63%	191.0	134.3	142%
	<u>\$963.8</u>	<u>\$1,023.9</u>	<u>94%</u>	<u>\$2,906.4</u>	<u>\$2,009.7</u>	<u>145%</u>
Avg non-operations headcount	18,481	20,457	90%	17,695	14,544	122%
(see note)						
People cost per head	\$92,374	\$87,880	105%	\$92,285	\$85,176	108%
Infrastructure cost per head	\$28,171	\$29,520	95%	\$28,553	\$31,626	90%
(annualized cost per average MS head)						
Contingent staff and outsourcing	38.4%	34.0%	113%	36.6%	19.3%	190%
(as a percentage of People costs)						

(Note: excludes heads and expenses related to Operations included in Cost of Revenue)

- Operating expenses were 6% under plan for the quarter and 7% for the year. Year-to-date spending of \$2.91 billion represents year-over-year growth of 45%, well below revenue growth of 53%. However, contingent staffing, marketing expenses and third party development costs are each growing faster than revenue.
- People costs excluding contingent staff (temporary help, consulting, and outsourcing) were 95% of plan primarily due to lower than plan headcount. Average costs per head were 5% and 8% over plan for the quarter and year, respectively. This variance is primarily due to accrued but not budgeted management and executive bonuses, and employee recruiting costs, particularly signing and relocation bonuses.
- Infrastructure costs increased 10% year over year, driven by higher telecommunication costs

which increased 43% to \$72 million. On a per head basis, infrastructure costs are below plan and last year.

- Contingent staff and outsourcing costs increased 150%, or \$269 million over last year. As shown below, outsourced PSS represents the most significant increase.

	FYTD96	FYTD95	Growth
PSS	\$166.6	\$50.1	233%
Product Groups	132.9	52.5	153%
ITG	62.0	33.8	83%
Sales Groups	38.8	23.3	66%
MCS	27.5	1.2	2215%
G&A	20.3	18.2	12%
TOTAL	448.1	179.1	150%

- Other expenses include bad debt, tax, and license expenses which are generally variable with sales volume.

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PRODUCT DEVELOPMENT COSTS

(\$ in millions)	Q96-3				
	Actual	Plan	% of Plan	Prior Year	% of PY
Platform Product Group					
Business Systems	\$70.5	\$56.4	125%	\$41.7	169%
Personal Systems	38.2	35.1	109%	35.5	107%
Developer	40.2	35.5	113%	30.8	130%
Consumer Systems	22.0	32.1	69%	17.9	123%
Platform Mgmt	16.4	19.4	85%	10.9	150%
Total Platform Products	187.2	178.5	105%	136.9	137%
Application Content Group					
Consumer	\$78.5	\$72.7	108%	\$39.8	187%
Desktop Applications	48.5	49.8	87%	37.9	128%
Microsoft On-Line	22.7	31.1	73%	8.6	264%
Personal Finance	2.5	3.8	66%	1.9	131%
Research & mgmt	8.4	10.2	83%	6.1	138%
Total Application & Content	160.6	167.5	96%	94.3	170%
Product Marketing	44.6	54.5	82%	38.7	115%
Other Development Costs	8.2	2.7	335%	1.7	530%
Total	\$401.7	\$403.3	100%	\$271.6	148%
	FYTD 96				
	Actual	Plan	% of Plan	Prior Year	% of PY
Platform Product Group					
Business Systems	\$171.6	\$168.1	102%	\$123.5	139%
Personal Systems	103.0	107.9	95%	93.0	111%
Developer	113.6	107.0	106%	88.1	132%
Consumer Systems	74.0	90.6	82%	53.9	137%
Platform Mgmt	47.7	53.2	90%	29.4	162%
Total Platform Products	509.8	526.8	97%	385.9	132%
Application Content Group					
Consumer	\$196.4	\$204.5	96%	\$98.0	200%
Desktop Applications	144.1	151.6	95%	107.4	134%
Microsoft On-Line	62.4	82.7	75%	21.1	296%
Personal Finance	5.7	9.8	58%	5.3	107%
Research & mgmt	22.8	29.4	77%	18.5	123%
Total Application & Content	431.3	477.9	90%	250.3	172%
Product Marketing	140.9	180.6	78%	81.0	174%
Other Development Costs	43.2	8.7	495%	5.4	798%
Total	\$1,125.3	\$1,194.1	94%	\$722.6	156%

- Year-to-date product development costs increased 56% over last year with headcount increasing 39% to 7,093 at quarter end. Product marketing, contingent staffing and third party development costs increased across all divisions.
- Application and Content headcount grew 5% over Q96-2 to 3,031 while controllable expenses grew 11%, 96% of plan. Year-to-date controllable expenses total \$431 million, 72% growth over FY95. Year over year growth is primarily due to increased investment in Consumer and MOS headcount, combined with increases in third party product development and localization costs.
- Platforms headcount grew 4% over Q96-2 to 4,062 with controllable expenses increasing by 12%, 105% of plan. Year-to-date Platform product group controllable expenses were \$510 million or 97% of plan and 32% over FY95. Localization costs related to Windows 95 and continued investment in Business Systems and Developer divisions are the primary drivers of this increase.
- Other product development costs year to date include \$7 million related to DreamWorks Interactive and \$20 million related to development agreements with DEC.

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SALES, MARKETING & SUPPORT COSTS

(\$ in millions)	Q96-3									
	Actual		Plan		% of Plan		Prior Year		% of PY	
Sales Expenses										
North America	\$64.0	13%	\$69.5	13%	92%	\$53.2	13%	120%		
Europe	67.9	14%	67.5	12%	101%	63.6	16%	107%		
ICON	24.8	5%	26.6	5%	93%	21.1	5%	117%		
Far East	20.1	4%	22.8	4%	88%	12.6	3%	159%		
OEM	27.1	6%	28.0	5%	97%	19.7	5%	138%		
Other	23.1	5%	21.0	4%	110%	17.1	4%	135%		
Total sales expenses	<u>226.9</u>	<u>48%</u>	<u>235.4</u>	<u>43%</u>	<u>96%</u>	<u>187.3</u>	<u>46%</u>	<u>121%</u>		
Marketing Costs	130.2	27%	185.1	34%	70%	136.6	34%	95%		
Support Cost	119.8	25%	128.1	23%	94%	81.0	20%	148%		
Total	<u>\$476.9</u>	<u>100%</u>	<u>\$548.5</u>	<u>100%</u>	<u>87%</u>	<u>\$404.9</u>	<u>100%</u>	<u>118%</u>		

	FY1996									
	Actual		Plan		% of Plan		Prior Year		% of PY	
Sales Expenses										
North America	\$190.7	12%	\$217.5	13%	88%	\$166.9	15%	114%		
Europe	202.0	13%	205.0	12%	99%	174.6	16%	116%		
ICON	76.3	5%	78.2	5%	98%	61.1	6%	125%		
Far East	60.3	4%	67.6	4%	89%	35.7	3%	169%		
OEM	82.8	5%	76.9	5%	108%	59.9	5%	138%		
Other	52.2	3%	65.8	4%	79%	47.7	4%	109%		
Total sales expenses	<u>664.2</u>	<u>43%</u>	<u>711.0</u>	<u>42%</u>	<u>93%</u>	<u>545.8</u>	<u>49%</u>	<u>122%</u>		
Marketing Costs	533.0	34%	615.6	36%	87%	334.6	30%	159%		
Support Cost	362.2	23%	367.0	22%	99%	225.3	20%	161%		
Total	<u>\$1,559.5</u>	<u>100%</u>	<u>\$1,693.7</u>	<u>100%</u>	<u>92%</u>	<u>\$1,105.7</u>	<u>100%</u>	<u>141%</u>		

- Q96-3 sales, marketing and support costs were \$477 million, 87% of plan and 18% over last year. Product support costs increased 48% primarily due to support related to the launch of Desktop 95.
- Channel marketing costs, including Broad Reach, were \$130 million during Q96-3, 70% of plan. Year to date marketing costs total \$533

million or 87% of plan and 8% of net revenue. These costs grew 59% over prior year versus 53% growth in net revenue.

- Product support expenses were 94% of plan for Q96-3 and they declined quarter over quarter as support for the launch of Windows 95 tapers off. As a percent of finished goods revenue, support costs average 8%, slightly below plan.

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GENERAL & ADMINISTRATIVE COSTS

(in millions)	Q96-3							
	Actual		Plan		% of Plan	Prior Year		% of P
ITG	\$27.7	32%	\$23.6	33%	117%	\$23.8	35%	116%
Finance	11.8	14%	12.5	17%	94%	12.0	18%	98%
Human Resources	7.9	9%	8.8	12%	90%	7.4	11%	108%
MS Services Group	4.8	6%	5.0	7%	95%	4.7	7%	101%
Real Estate	1.2	1%	1.2	2%	101%	0.6	1%	190%
Legal	23.8	28%	22.3	31%	106%	18.6	27%	128%
Other	8.1	10%	(1.4)	(2%)	nm	1.1	2%	nm
Total	\$85.3	100%	\$72.1	100%	118%	\$68.2	100%	125%

(in millions)	FYTD95					
	Actual		Plan		% of Plan	% of P
ITG	\$79.4	36%	\$70.7	32%	112%	131%
Finance	35.8	16%	37.4	17%	96%	109%
Human Resources	22.7	10%	25.9	12%	88%	109%
MS Services Group	13.6	6%	14.6	7%	93%	101%
Real Estate	3.8	2%	3.9	2%	98%	243%
Legal	61.6	28%	66.9	30%	92%	127%
Other	4.6	2%	1.5	1%	nm	140%
Total	\$221.7	100%	\$220.8	100%	100%	122%

- G&A costs include corporate cost centers that support MS on a worldwide basis. These expenses include IT project development and regional support, corporate finance, legal and corporate affairs, HR services such as employee development, compensation and recruiting, and certain worldwide real estate and administrative support services.
- G&A expenses is 18% over plan in Q96-3, growing 25% over last year. G&A headcount totaled 2,078 at quarter end, a 39% increase over FY95.
- Year-to-date G&A costs are about 3% of net revenue, reflecting year over year growth of 22%. Primary growth drivers are increased ITG spending for application development and incremental operational support costs. Legal costs related to a higher incidence of litigation, piracy efforts and dispute resolution have also contributed to the growth.
- ITG costs exceed plan by \$9 million year to date primarily due to the timing of certain projects versus plan and approved plan variances for implementation of the SAP financial system.

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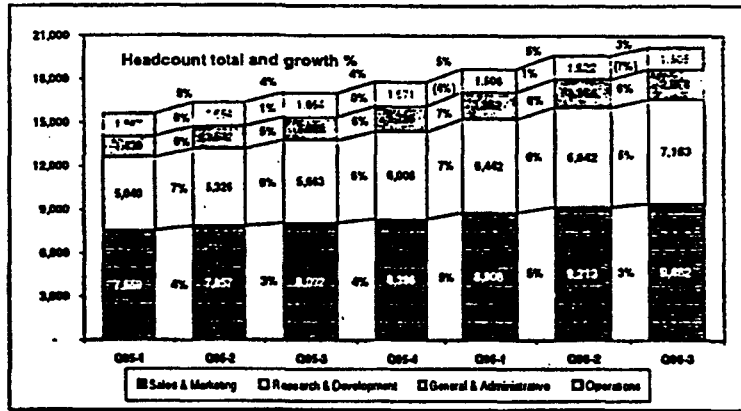
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HEADCOUNT



- Total Microsoft headcount was 20,208 at quarter-end, an increase of 567 during the quarter. Q96-3 headcount is 88% of full year plan.
- Headcount growth was somewhat slower than in previous quarters due to a temporary decrease in reorganization, and the January layoff of 175 manufacturing employees.

	Q96-1		Q96-2		Total	FY96 Plan
	Actual	Plan	Actual	Plan		
North America FG	2,135	2,204	2,241	2,481	37	2,495
Europe FG	1,678	1,751	1,838	1,887	87	1,889
ICOM FG	687	754	828	853	72	855
Far East FG	388	412	449	472	37	496
Total FG	4,888	5,121	5,354	5,693	233	5,736
WW PSS	3,455	3,621	3,629	4,178	8	4,228
WW OEM	220	227	233	261	6	261
Press	46	54	57	57	3	57
MS OnLine	21	37	31	44	(6)	44
AT Sales	135	153	158	178	5	186
Sales, Marketing & Support Total	8,808	9,213	9,462	10,411	249	10,514
Platform Product Group						
Business Systems	1,166	1,241	1,370	1,384	126	1,304
Developer	875	870	992	1,005	122	1,269
Personal Operating Systems	767	776	821	872	45	870
WW Platform Management	323	359	282	499	(77)	500
Consumer Systems	601	646	597	718	(49)	734
Total Platforms	3,732	3,892	4,062	4,469	176	4,677
Applications & Content Group						
Consumer	853	946	1,021	1,104	75	1,258
Desktop Applications	1,234	1,282	1,358	1,417	76	1,401
Desktop Finance	48	60	74	95	14	107
MS OnLine	377	438	411	839	(27)	805
Apps/Content Research Mgmt	140	155	167	191	12	197
Total Applications & Content	2,652	2,881	3,031	3,446	150	3,566
Research & Development Total	6,344	6,773	7,093	7,915	320	8,245
Press	58	69	70	78	1	78
General & Administrative						
ITG	628	683	722	806	36	815
Finance	329	296	315	339	15	345
Human Resources	316	321	347	349	26	350
MS Services Group	353	406	418	460	12	465
Real Estate & Construction	31	32	38	36	6	37
Legal & Corporate Affairs	158	219	233	252	14	252
Executive Staff	6	7	5	6	(2)	6
General & Administrative Total	1,852	1,964	2,079	2,248	114	2,270
Operations	1,508	1,622	1,505	1,782	(117)	1,751
GRAND TOTAL	18,710	19,841	20,208	22,435	567	22,859

Research & Development Headcount by division is reported based on the department's September FY96 headcount according to report.

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Operations

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KEY PERFORMANCE METRICS

	North America			Europe			Far East			ICOM			Total		
	Goal-96	Q96-3	Q96-2	Goal-96	Q96-3	Q96-2	Goal-96	Q96-3	Q96-2	Goal-96	Q96-3	Q96-2	Goal-96	Q96-3	Q96-2
Service & Financial Metrics															
Lead Time (Average Days)	8	7	8	13	11	13	5	na	na	15	17	19	10	9	10
Fill Rate (%)	95%	92%	90%	80%	80%	81%	80%	na	na	78%	71%	84%	83%	76%	87%
% Accounts Receivable Current	95%	83%	89%	80%	70%	70%	85%	80%	90%	88%	87%	72%	88%	77%	79%
Total DSO	40	75	91	45	59	69	80	50	49	82	162	163	51	65	77
Inventory turnover rate (Per Yr)	12.0	1.1	1.1	8.0	1.8	3.7	8.0	7.1	8.8	8.0	1.9	1.8	8.6	1.7	2.1

- Worldwide inventory turns during the quarter declined to 1.7 turns per year primarily due to channel returns of Desktop 95 products. Worldwide Operations is working with the Sales Channel to move salable inventory and dispose of inventory for which little or no demand exists.
- Accounts receivable days sales outstanding (DSO) for Q96-3 improved to 65 during the quarter and showed improvement across all regions. This improvement is largely due to reductions in receivables related to collections and returns from customers granted extended terms on Desktop 95 products.

SUMMARY OF OPERATING STATISTICS

	Q96-3	Q96-2	Q96-1	Q95-4
Packaged Products				
Number of Bill to Customers	516	518	480	440
Number of Ship to Locations	675	687	631	596
Number of SKU's to = 80% of revenue	330	331	113	252
Total SKU's Sold	3,742	3,564	3,635	4,076
Select 2.0 & 3.0				
Select Usage Reporting % (cum)	94%	94%	85%	92%
Unbilled Select Revenue (est. \$000)	\$ 13,896	\$ 16,504	\$ 18,948	\$ 12,984
Number of Master Agreements 2.0	1,973	2,417	2,703	2,503
Number Of Master Agreements 3.0	1,307	902	90	0
Total Number of Enrollments	7,056	5,243	4,325	4,950
Revenue Per Order (\$000):				
Packaged Product	43	52	72	85
Select 2.0	63	57	58	61
Select 3.0	28	25	30	n/a
MOLP	9	9	7	n/a

- Unbilled Select revenue represents those usage reports received from customers but not billed due to reporting problems. Significant efforts have been made to improve the reporting process and to clean up past usage reporting problems. These efforts are beginning to pay off as can be seen by the decrease in unbilled Select revenue since Q96-1.
- Select enrollment agreements have increased 42% over the past four quarters reflecting the increasing popularity of the program. Version 3.0 master agreements now make up 40% of total Select versus 27% in Q96-2.

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COST OF REVENUE BY PIPE
FYTD98 Finished Goods Gross Margin Analysis

(in millions)

	North America		Europe		Far East		I.D.S.		Total Finished Goods	
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Net Revenue	\$ 1,960.8	100%	\$ 2,042.0	100%	\$ 1,461.8	100%	\$ 497.2	100%	\$ 3,957.8	100%
Standard Product Costs	162.6	8.3%	198.3	9.6%	81.4	4.9%	66.6	13.4%	377.8	7.3%
Other Mfg Costs/Variates	37.9	1.9%	49.6	2.4%	41.7	2.5%	2.8	0.6%	95.1	2.0%
Inventary Adjustments	50.1	2.6%	8.2	0.4%	18.6	1.1%	2.7	0.7%	90.3	1.9%
Pipe Processing	18.9	1.0%	17.0	0.8%	12.9	0.8%	1.0	0.3%	37.0	0.9%
Distribution	11.1	0.6%	8.1	0.4%	3.9	0.3%	1.6	0.3%	18.8	0.4%
Repairs	32.8	1.7%	34.8	1.7%	15.3	0.9%	9.4	1.9%	61.2	1.3%
Subtotal	313.4	16.0%	316.0	15.3%	173.8	10.5%	85.3	17.3%	640.2	13.7%
Returns/Repack/Network	43.8	2.3%	22.1	1.1%	16.1	1.0%	1.7	0.3%	65.4	1.3%
Local Processing	12.7	0.6%	17.5	0.8%	12.9	0.8%	6.4	1.3%	33.0	0.7%
Freight	6.2	0.3%	8.9	0.4%	12.5	0.8%	3.7	0.7%	24.0	0.5%
Total Cost of Revenue	378.1	19.3%	364.5	17.7%	215.3	13.0%	97.1	19.5%	766.8	16.4%
Gross Margin	\$ 1,582.7	80.7%	\$ 1,677.5	82.3%	\$ 1,446.5	87.0%	\$ 400.1	80.5%	\$ 3,191.0	81.6%

License Fee	62%	71%	54%	53%	68%	70%	54%	53%	60%	64%
Full Packaged Product	38%	29%	46%	45%	32%	30%	46%	43%	40%	36%
CD-ROMs, by Division										
Personal Operating System	52%	26%	55%	26%	74%	12%	12%	34%	54%	21%
Desktop Applications	28%	10%	26%	10%	77%	16%	11%	16%	39%	12%
Consumer (Non-Hardware)	75%	60%	73%	60%	59%	16%	39%	71%	74%	55%
Developer	79%	30%	55%	30%	70%	20%	12%	51%	71%	23%
Business Systems	60%	47%	34%	47%	87%	61%	14%	34%	56%	34%
Total	55%	38%	53%	39%	74%	39%	20%	43%	56%	37%

Other Mfg Costs/Variates consists of manufacturing variances, hardware costs and other program costs.

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COST OF REVENUE SUMMARY

- Finished goods cost of revenue year to date was 16.4% of net revenue versus plan of 16.8%. This positive variance was largely due to a substantial

decline in standard product costs, offset by \$90 million in charges for excess Desktop 95 product and a \$19 million charge related to keyboards.

Standard Product Costs

- Standard product costs consist of all costs incurred to manufacture and assemble finished goods. These costs include labor, overhead, and material costs at a standard rate.

- Total finished goods standard product costs were 7.2% of net revenue, nearly three points below plan. This reduction in costs is due to an increased mix of CD ROM media version products and a shift to Select and other licensed product sales. On a worldwide basis, CD ROM based product comprises 56% of total packaged product versus plan of 57%.

Other Manufacturing Costs & Variances

- Other Manufacturing Costs & Variances includes manufacturing variances, hardware, and program costs.

- Year-to-date total manufacturing costs were \$95 million, or \$16 million (20%) higher than plan. This unfavorable variance was due to program costs which were \$15 million higher than plan primarily due to MSDN and MES courseware.

Inventory Adjustments

- Inventory adjustments include charges for in-house scrap, re-cost impacts, provisions for inventory obsolescence, and cycle count adjustments.

- Year-to-date inventory adjustments total \$90 million, \$66 million higher than plan due to increased inventory reserves for excess and obsolete 16-bit Office, Desktop 95, and keyboards. These costs in excess of plan by region were North America (\$40 million), Europe (\$9 million) and ICON (\$11 million).

Pipe Processing

- Pipe processing represents expenses related to pre-sale communication, order processing, billing and collection activities incurred at Regional Operation Service Centers (ROSC) and third party vendors. Costs for fulfillment activities related to MSDN and MES are captured within pipe processing, while all other fulfillment costs are captured in local processing as noted below.

- Year-to-date pipe processing costs were \$37 million or 13% higher than plan primarily due to fulfillment fees related to sales program in North America and Europe.

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Royalties

- Royalties include payments to third parties for the right to use intellectual property in MS products.
- Year-to-date royalty expenses total 1.3% of net revenue versus plan of 1.5%. This favorable percent variance was due primarily to an amendment to the agreement affecting royalties for Grammar and Spell Checker used in Word

and Works and the buyout of the royalty agreements covering Flight Simulator and Encarta. The per unit royalty for Grammar and Spell Checker was replaced with a flat license fee paid quarterly. The buyout of Flight Simulator and Encarta agreements eliminated royalty expense. The purchase price for these agreements was capitalized and amortized under intellectual property rights.

Returns Scrap/Rework

- Returns scrap/rework includes direct material, labor and overhead costs associated with product that has been returned and scrapped or reworked.

- Year-to-date returns scrap/rework was \$69 million, or \$37 million over plan primarily due to allowances for actual and anticipated returns of Desktop 95 products.

Local Processing

- Local processing includes all costs related to fulfillment activities at both international sales locations and ROSCs. In addition, this line item includes all pre-sale communication, order processing, billing, and collection activities incurred by international sales locations.

- Year-to-date local processing costs were \$33 million or \$4 million below plan due to lower than anticipated direct fulfillment and headcount costs in all regions except Europe.

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APPLICATIONS & CONTENT

Q96-3 P&L Summary

(\$ in millions)

	Desktop Apps		Consumer		Desktop Finance		Microson Online		Meyer Research		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$1,983.3	113%	\$199.8	94%	\$1.8	97%	\$19.1	79%	\$8.9	mm	\$1,233.8	100%
Cost of Revenue	166.2	82%	64.9	104%	0.3	30%	34.6	129%	0.0	mm	224.1	100%
Gross Margin	806.1	118%	116.8	87%	1.2	104%	(14.8)	mm	8.9	mm	569.8	119%
% of Net Revenue	40%		33%		67%		(77%)		mm		45%	
Operating Expenses												
People	29.6	88%	26.4	101%	1.5	88%	16.8	84%	0.8	88%	71.1	92%
Infrastructure	9.1	88%	7.3	86%	0.4	79%	4.1	88%	1.2	78%	22.3	88%
Contingency Staff	4.2	176%	13.9	86%	0.2	mm	4.8	87%	0.2	84%	22.8	162%
Product Development	6.7	81%	29.4	128%	0.5	38%	3.1	127%	0.5	28%	36.2	116%
Marketing	52.5	88%	17.8	87%	2.4	100%	4.8	88%	0.0	87%	77.3	84%
Other	0.4	884%	1.2	884%	0.8	mm	0.7	111%	0.4	107%	2.8	239%
Product Support Services	23.3	87%	6.8	84%	0.7	mm	16.2	129%	0.0	mm	32.1	88%
Tax, Insurance & Settlement	2.4	84%	1.5	88%	0.1	mm	0.4	88%	0.0	mm	4.4	88%
Bad Debt Expense	1.7	83%	1.4	134%	0.0	158%	1.1	mm	0.0	mm	6.2	100%
R&D Shared Resources	4.5	87%	2.3	72%	0.5	174%	0.4	88%	(1.0)	mm	7.1	88%
Total Operating Expenses	100.3	88%	108.4	88%	6.1	111%	29.3	87%	3.8	100%	201.1	92%
Responsibility Margin	747.9	128%	8.5	34%	(4.3)	mm	(14.8)	mm	(2.9)	mm	668.7	128%
% of Net Revenue	37%		4%		(244%)		(77%)		(32%)		54%	
Corporate Allowance	102.8	97%	43.7	88%	0.7	100%	0.0	100%	0.1	100%	150.1	84%
Contribution Margin	\$643.9	128%	(58.1)	mm	(4.3)	mm	(14.8)	mm	(2.9)	mm	\$222.8	127%
% of Net Revenue	32%		(29%)		(239%)		(77%)		(32%)		18%	
% of Prior Year												
Net Revenue	127%		127%		77%		mm		mm		127%	
Gross Margin	124%		109%		129%		20%		mm		128%	
Responsibility Margin	143%		19%		184%		40%		mm		128%	
Contribution Margin	138%		mm		108%		24%		24%		128%	
Dollar per head, annualized in thousands												
Average Headcount	1,300	82%	902	83%	63	79%	488	88%	161	87%	2,328	87%
Net Rev per head	\$1,880	128%	\$214	100%	\$29	128%	\$187	114%	\$5	mm	\$1,876	124%
People & Infrastructure cost per head	\$116	102%	\$138	105%	\$117	119%	\$144	88%	\$179	109%	\$131	101%
Marketing Exp % of Net Revenue	0.2%	79%	0.9%	71%	132.2%	191%	24.8%	145%	mm	mm	6.3%	78%

FYTD96 P&L Summary

(\$ in millions)

	Desktop Apps		Consumer		Desktop Finance		Microson Online		Meyer Research		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$2,788.7	119%	\$426.4	89%	\$11.6	97%	\$26.8	79%	\$8.9	mm	\$1,207.4	100%
Cost of Revenue	312.4	88%	273.9	114%	4.1	188%	77.4	118%	0.0	mm	668.9	108%
Gross Margin	2,416.2	112%	362.4	89%	7.8	281%	(46.2)	mm	8.9	mm	2,736.2	109%
% of Net Revenue	86%		85%		67%		(76%)		mm		89%	
Operating Expenses												
People	64.8	88%	72.6	100%	3.8	88%	31.6	78%	16.7	88%	218.3	92%
Infrastructure	26.2	88%	20.5	83%	1.8	78%	11.7	87%	3.8	83%	63.1	81%
Contingency Staff	9.5	136%	26.5	88%	0.4	mm	16.7	88%	0.7	88%	57.8	85%
Product Development	21.6	87%	63.8	100%	0.7	17%	6.4	84%	1.9	26%	92.8	88%
Marketing	106.7	81%	74.8	88%	5.8	148%	7.7	88%	0.1	12%	206.9	81%
Other	1.8	488%	2.4	271%	0.8	88%	1.6	88%	0.8	100%	6.8	147%
Product Support Services	30.8	88%	23.5	82%	1.7	mm	21.1	128%	0.8	mm	148.1	88%
Tax, Insurance & Settlement	6.9	72%	4.5	82%	0.1	mm	0.5	48%	0.0	mm	12.8	79%
Bad Debt Expense	22.4	122%	4.7	145%	0.1	154%	1.6	220%	0.0	mm	28.7	129%
R&D Shared Resources	25.3	71%	6.3	72%	1.7	212%	1.1	84%	(12.3)	mm	21.8	78%
Total Operating Expenses	455.7	91%	309.9	84%	13.9	191%	64.2	88%	16.4	87%	\$21.4	82%
Responsibility Margin	1,923.2	119%	63.3	84%	(7.9)	mm	(142.8)	mm	(19.4)	mm	1,866.2	119%
% of Net Revenue	69%		7%		(67%)		(54%)		(22%)		15%	
Corporate Allowance	304.1	88%	138.8	94%	1.8	97%	21.9	84%	0.1	87%	463.7	91%
Contribution Margin	\$1,619.1	128%	(58.8)	mm	(8.3)	mm	(142.7)	mm	(19.3)	mm	\$1,348.2	127%
% of Net Revenue	58%		(16%)		(67%)		(54%)		(22%)		11%	
% of Prior Year												
Net Revenue	126%		124%		202%		mm		mm		126%	
Gross Margin	129%		112%		212%		mm		mm		129%	
Responsibility Margin	138%		22%		107%		mm		mm		114%	
Contribution Margin	127%		mm		79%		mm		mm		114%	
Dollar per head, annualized in thousands												
Average Headcount	1,328	84%	888	84%	88	79%	288	78%	168	88%	2,768	88%
Net Rev per head	\$2,098	117%	\$528	105%	\$278	222%	\$188	105%	\$5	mm	\$1,888	128%
People & Infrastructure cost per head	\$118	100%	\$148	102%	\$138	100%	\$168	88%	\$188	118%	\$138	100%
Marketing Exp % of Net Revenue	7.3%	87%	11.9%	88%	49.8%	87%	28.8%	118%	mm	mm	6.4%	87%

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AUTHOR: RICK GRICLEY (RICKGRIC)

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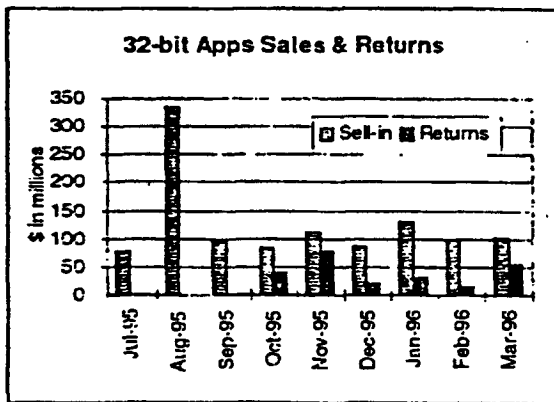
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Business Results

- Net revenue for the Applications & Content Group (ACG) totaled \$1.22 billion in Q96-3, 8% better than plan and a 31% increase over last year on continued growth in Office and Consumer products.
- Desktop Application Division (DAD) revenue totaled \$1.00 billion in Q96-3, 12% above plan and a 31% increase over last year. Adjusted for estimated channel sell-through, sales of Office 95 totaled \$308 million, 31% of total DAD revenue. As shown in the table below, sell-in of 32-bit applications has remained steady after the initial August sell-in. A total of \$228 million of Office 95 product has been returned since launch in August and approximately \$188 million remains as channel inventory. Resellers are currently not requesting any additional returns.



- Sales of Consumer Division titles totaled \$200 million, 6% less than plan primarily due to \$28 million in returns of Works, Keyboards and Encarta. Year-to-date software revenue totals \$372 million, 27% ahead of last year driven primarily by sales of Flight Simulator, Encarta and Bookshelf. Hardware revenue of \$289 million is up 37% over FY95 driven by sales of Joysticks, Keyboards, and Mouse.
- Net revenue from Microsoft Online (MOS) totaled \$19 million in Q96-3, 25% below plan primarily due to lower than planned subscription and extended services revenue. Subscription billings are below plan due to fewer paying members and billing system problems while changing content strategies has impacted extended services revenue. Year-to-date net revenues total \$39 million, 25% below plan.
- ACG gross margin as a percentage of net revenue was 82% in Q96-3, a three percentage point improvement over Q96-2 due to improvements in gross margin in DAD, offset by higher than planned MOS data center and telecom costs related to the TCP/IP network build-out.
- Operating expenses for ACG totaled \$309 million in Q96-3, 8% lower than plan, primarily due to lower than planned headcount. Year-over-year operating costs increased 36% as a result of major investments in Consumer and MOS.
- ACG total responsibility margin of 56% was six percentage points better than plan, largely due to improved gross margins and lower than plan operating expenses in DAD.

Outlook

- DAD net revenue is expected to total \$4 billion for FY96. However, the slip of Office 97 will require new sustained marketing efforts and possibly new product bundles targeted to home and small business users to meet this projection.
- Consumer Division is anticipating shipping a limited number of new titles during Q96-4 with the largest revenue impact expected from Bookshelf 96. There is a full slate of new titles and versions with scheduled RTM dates in June and September in anticipation of the FY97 holiday sales.

- MSN's subscriber base continues to grow with 323,000 new subscribers in Q96-3. Total subscribers now exceed one million. Based on current trends, subscriber numbers are expected to total 1.3 million by the end of Q96-4. FY96 revenue is projected to total \$65 million or 19% below plan. This variance is primarily due to lower than planned advertising sales and shortfalls in extended and business services revenue.

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AUTHOR: RICK GARDLEY (RICKGARD)

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Desktop Applications Review

Investments & Product Highlights

- Size and complexity related to the ambitious feature set of Office 97 have caused the projected release date to be slipped from September 4, to October 16, 1996. This change will likely delay availability to customers until January 1997, missing the important FY97 holiday season.
- The signature features of Office 97 are summarized into three themes: Get Organized, Get Connected, and Get Results.
- Get Organized features include a new workgroup client (code name Ren) with integrated mail, calendar, contact list, task management and other tools. Office Web™ technology, including Front Page, is a key component of the Get Connected features allowing for hyperlinks and Web navigation



within Office applications. Get Results features include the IntelliMouse for improved document navigation and Office Assistant, a unified help tool.

- In January, Microsoft completed a merger with Vermeer, Inc., the developer of Front Page, a Web authoring product. Approximately 31 former employees of Vermeer will relocate to Redmond to join the Vermeer Product Unit headed by Chris Peters.
- Jon DeVaan succeeded Chris Peters as head of the Office Business Unit. Jon was Development Manager for the Office Business Unit, and prior to that Development Manager for the Excel Product Unit.
- Kathleen Schoenfelder succeeded Jon Reingold as Product Unit Manager for the Project Product Unit. Kathleen has held many positions within the product groups, including group product manager for Excel. Jon Reingold moved to head the Excel Product Unit.

Competition

WordPerfect (Corel)

- In March, Corel announced the completion of its acquisition of WordPerfect from Novell for about \$11 million in cash, plus an estimated \$100 million in stock and \$70 million minimum royalty payments over the next five years. Corel is not expected to ship WordPerfect as a stand-alone product, but has announced two flagship WordPerfect based suites:
 - Corel WordPerfect Suite includes WordPerfect, Quattro Pro spreadsheet, presentations graphics package. CorelFLOW business graphics package. Starfish's

Sidekick and Dashboard utility products, 200 fonts, and over 10,000 clip art images. This suite is very aggressively priced at \$99 SRP, with a 16-bit version scheduled for release in late April. A 32-bit version is scheduled for release in May.

- Corel Office Professional includes the products above, as well as Paradox database, InfoCentral, and additional clip art images and fonts. The Pro version is priced at \$199 SRP, with 16-bit and 32-bit versions scheduled to be released as noted above

Lotus (IBM)

- Lotus shipped Notes 4.0 in March and announced additional components designed to run with Notes 4.0 on Windows NT. These components are stripped down mini-applets loosely based on SmartSuite code and are currently in beta.
- Lotus also announced a further delay in the 32-bit version of 1-2-3 for Windows 95. The new ship date is early July, at which time Lotus will re-launch SmartSuite as SmartSuite 97, a full 32-bit product. The OS/2 version of SmartSuite will not ship until late 1996.

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Consumer Review

Investments & Product Highlights

- Magic School Bus Explores Inside the Earth, Complete Gardening, Do-It-Yourself Home Repair, and Return of Arcade were shipped in Q96-3 as planned. In addition, localization teams in Ireland, Redmond, and the Far East released 31 localized products during the quarter, bringing to 160 the total number of local-language versions of Consumer titles released in FY96.
- A new Channel initiative process designed to aid retailers with more efficient and effective product roll outs was introduced during Q96-3. Under this initiative all new Consumer titles will be shipped on one of six prescribed dates throughout the year, with channel sales and marketing efforts focused on those dates.
- Planning for the FY97 holiday season began this quarter with a goal of having 20 Microsoft products in the top 100 consumer software titles sold in the US. During FY97, Microsoft will release several new Windows 95 based games, new versions of Encarta and Magic School Bus titles, PictureIT!—a new product for the high potential consumer imaging market, and SideWinder Gamepad—a new gaming device. Microsoft had 13 software consumer titles in the top 100 in FY96.
- Cityscape, an online platform for local information and advertising publishing, began recruiting field publishing teams for 15 cities in North America. General managers have been hired for Seattle, New York City, San Francisco and San Diego, and offers are pending in three



additional locations. Development remains on schedule for a December 1996 release.

- Microsoft and DreamWorks Interactive (DWI) are discussing an agreement which would give Microsoft distribution rights to certain DWI software titles. DWI expects to deliver four products in FY97 and up to eight additional products in FY98.
- In Q96-3, a project was launched to dramatically increase gross margins on Consumer products resulting in a decision to outsource manufacturing and distribution of Consumer products to Starpak in Colorado. Manufacturing of a core set of products began on April 1 under this arrangement.
- "MS Station," an OEM test with Packard Bell was launched this quarter. The package consists of a high-end PC with over 25 MS software titles, a MS keyboard, MS joystick, and MS mouse. "MS Station" was marketed as a premium consumer machine with a retail price of approximately \$4,000. Initial sell-through information is disappointingly low at less than 25% of expectations. Early customer research reveals, however, that 81% of those who purchased this product were motivated to do so primarily by the MS software and peripherals. The division marketing team is exploring the possibility of doing a "Version 2.0" of the product, with fewer titles and at a reduced price point.
- In January, MS announced a new Internet interview show called "Encarta on the Record," with Linda Ellerbee as the host. The first show aired on February 21, 1996.

Competition

- CUC International, Inc. announced this quarter that it agreed to pay \$1.7 billion in stock to buy Davidson & Associates, Inc. and Sierra On-Line, Inc. CUC, which is a potential partner in the Cityscape project, derives most of its

revenue from membership-based shopping clubs such as Shoppers Advantage and the Entertainment book. With this move, CUC will become one of the largest developers of educational and entertainment software.

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- SoftKey International, after acquiring the Learning Company and Compton's from the Tribune Company for over \$700 million last year, said it plans to use "aggressive marketing tactics and expanded distribution channels" to reshape itself into a high quality brand name vendor. If a deal to acquire Minnesota Educational Computing Corp. (MECC) closes as expected, Softkey will become a \$350 million company this year.
- George Lucas announced the formation of a new multimedia educational company, Lucas Learning Ltd. The new company will focus on children's products for the home and school. Lucas' entertainment multimedia company, LucasArts Entertainment, currently holds the number two market share in the entertainment PC/CD-ROM industry and has four of the top 20 best-selling games.

Desktop Finance Review

Investments & Product Highlights

- The Desktop Finance Division was created in March to focus on online banking strategies and products. The initial development focus includes the Open Financial Connectivity specification and development of ActiveX controls for home banking on the Internet.
- During Q96-3, several financial institutions agreed to offer online banking services using Money. This brings the total number of financial institutions making such commitments to 56.



- Microsoft and Visa announced an agreement to work together to offer a complete system for home banking and bill-paying services using Money and Visa Interactive's processing services.
- Checkfree, CFI Proservices, Online Resources, Ultradata and Edify Corporation, competitors to Intuit Services Corporation, announced intentions to build banking solutions for Money based on the Open Financial Connectivity specification.
- Money received a Best Buy award from PC World.
- Prodigy announced an electronic banking and marketing agreement with Citibank.
- Spinoza Ltd. shipped VBXchange, a \$349 tool kit that allows software developers to read and write data directly in Quicken databases. As a result, Intuit now has competition in the add-on market.

Competition

- Intuit announced agreements with an additional 15 financial institutions to offer online banking and bill payment services via Quicken and Intuit Services Corp, bringing their total to 37.
- First Interstate Bank unveiled a new World Wide Web site offering online banking via the Internet.

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AUTHOR: JEANNE KRALISE (LACONNEN)

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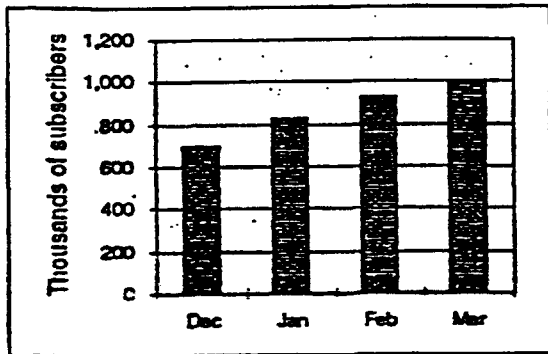
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MS Online Review

Investments & Product Highlights

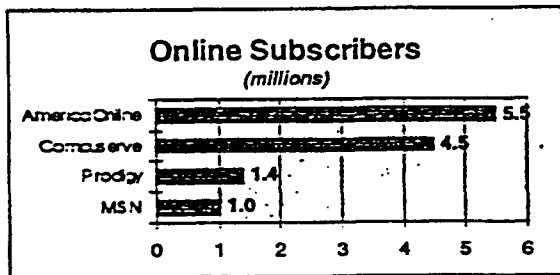
- The Microsoft Network (MSN) active subscriber count reached 1,005,000 at the end of Q96-3 up from 682,000 last quarter as shown in the following chart.



- New customer sign-ups averaged 200,000 per month during the quarter. Of these, approximately 80% were converted from a trial basis.

Competition

- As of March 31, 1996 subscriber counts for the major online services were as follows:



- America Online added nearly one million customers during the quarter to bring their total subscriber count to 5.5 million. AOL went operational in France on March 22.

- MSN is currently receiving approximately 500,000 connections to the service per day, representing 125,000 hours of connect time. Connection times on the UUNet IP network average approximately 20 minutes per connection.
- Maximum simultaneous connections to the service neared 10,700 in March, up from 5,000 at the end of Q96-2. MSN continues to experience backlogs in rating connection events that are billable to customers.



- Client software was upgraded to version 1.2 during the quarter. Work continues on version 1.3 which is expected to be released in May.
- On April 12, Laura Jennings was promoted to VP of MSN, replacing Russ Siegelman.
- H&R Block announced an IPO to sell 17.7% of CompuServe for \$480 million. The remaining 82.3% will be spun off over the next 12 months.
- WOW! was released by CompuServe with initial pricing of \$17.95 for unlimited usage of Internet services. CompuServe's IPO prospectus indicates the company intends to spend \$180 million on customer acquisition and marketing during the next year.
- AT&T announced WorldNet would be initially priced at \$19.95 for unlimited Internet access. Netcom, RBOCs, and others announced similar pricing. Prodigy introduced \$1 per hour Internet access.

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AUTHOR: COREY EDENS (COREYE)

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PLATFORMS

Q96-3 P&L Summary

(\$ in millions)

Net Revenue
Cost of Revenue
Gross Margin
% of Net Revenue
Operating Expenses
People
Infrastructure
Contingency Staff
Product Development
Marketing
Other
Product Support Services
Tax, Insurance & Settlement
Bad Debt Expense
R&D Shared Resources
Total Operating Expenses
Responsibility Margin
% of Net Revenue
Allocation
Contribution Margin
% of Net Revenue
% of Prior Year
Net Revenue
Gross Margin
Responsibility Margin
Contribution Margin

Dollar per head annualized in thousands

Average Headcount
Net Revenue per Employee
People & Infrastructure cost per Head
Marketing Exp % of Net Revenue

	Business Sys		Pers Oper Sys		Developer		Consumer Sys		Platforms Mgmt		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$284.3	100%	\$725.0	100%	\$111.0	99%	\$4.0	88%	\$11.7	nm	\$1,141.3	118%
Cost of Revenue	29.8	10%	27.0	6%	20.5	9%	0.4	12%	0.9	8%	78.5	8%
Gross Margin	254.5	101%	697.9	11%	90.5	10%	3.6	11%	10.8	nm	1,062.8	119%
% of Net Revenue	89.5%		95.6%		81.5%		89.0%		92.6%		92.3%	
Operating Expenses												
People	31.3	98%	23.8	11%	25.3	100%	13.0	72%	10.0	86%	104.2	98%
Infrastructure	10.7	94%	6.7	100%	6.7	94%	4.5	87%	2.9	72%	31.5	89%
Contingency Staff	0.1	179%	4.7	118%	3.7	158%	2.3	56%	1.9	100%	26.8	138%
Product Development	14.3	246%	2.8	70%	4.8	212%	1.5	6%	1.1	38%	28.1	140%
Marketing	28.7	80%	31.7	87%	10.5	78%	2.5	62%	0.8	9%	74.5	87%
Other	0.6	nm	0.1	200%	0.3	nm	0.3	78%	0.6	nm	1.0	nm
Product Support Services	14.3	77%	26.0	100%	14.0	82%	0.9	80%	(0.0)	nm	68.0	89%
Tax, Insurance & Settlement	0.5	68%	0.0	0%	0.1	44%	0.1	nm	0.5	214%	10.1	80%
Bad Debt Expense	1.7	148%	0.5	80%	0.7	100%	0.1	157%	0.1	nm	0.1	87%
R&D Shared Resources	4.1	117%	1.3	30%	(1.2)	nm	2.2	178%	(13.0)	67%	(7.1)	nm
Total Operating Expenses	120.3	100%	126.6	97%	65.4	99%	27.2	71%	3.6	nm	241.1	96%
Responsibility Margin	134.9	nm	670.4	11%	25.1	100%	(18.8)	nm	7.3	nm	721.3	130%
% of Net Revenue	47.5%		78.7%		22.6%		(44.5%)		6.3%		63.2%	
Allocation	28.2	100%	71.8	74%	21.2	100%	14.7	80%	0.5	4%	136.2	84%
Contribution Margin	\$186.7	nm	\$261.6	13%	\$3.9	11%	\$133.0	nm	\$7.9	nm	\$443.1	154%
% of Net Revenue	65.7%		36.1%		3.5%		30.0%		6.8%		38.8%	
% of Prior Year												
Net Revenue	236%		101%		100%		42%		28%		174%	
Gross Margin	240%		160%		164%		254%		172%		176%	
Responsibility Margin	76%		162%		20%		nm		17%		14%	
Contribution Margin	nm		163%		nm		nm		13%		21%	
Average Headcount	1,298	97%	785	91%	833	84%	650	92%	323	72%	3,099	82%
Net Revenue per Employee	\$278	136%	\$2,848	11%	\$476	108%	\$54	92%	\$145	nm	\$1,142	139%
People & Infrastructure cost per Head	\$129	100%	\$153	124%	\$137	110%	\$168	77%	\$170	124%	\$136	104%
Marketing Exp % of Net Revenue	10.4%	59%	4.4%	88%	9.4%	78%	29.0%	74%	nm	nm	6.5%	75%

FYTD96 P&L Summary

(\$ in millions)

Net Revenue
Cost of Revenue
Gross Margin
% of Net Revenue
Operating Expenses
People
Infrastructure
Contingency Staff
Product Development
Marketing
Other
Product Support Services
Tax, Insurance & Settlement
Bad Debt Expense
R&D Shared Resources
Total Operating Expenses
Responsibility Margin
% of Net Revenue
Allocation
Contribution Margin
% of Net Revenue
% of Prior Year
Net Revenue
Gross Margin
Responsibility Margin
Contribution Margin

Dollar per head annualized in thousands

Average Headcount
Net Revenue per Employee
People & Infrastructure cost per Head
Marketing Exp % of Net Revenue

	Business Sys		Pers Oper Sys		Developer		Consumer Sys		Platforms Mgmt		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$744.9	156%	\$2,206.0	107%	\$318.0	112%	\$24.2	83%	\$11.0	246%	\$3,317.7	116%
Cost of Revenue	75.0	101%	144.5	101%	84.2	111%	4.1	50%	3.0	97%	260.8	101%
Gross Margin	679.9	144%	2,061.5	107%	233.8	113%	20.1	87%	8.0	244%	3,056.9	117%
% of Net Revenue	91.3%		93.4%		73.5%		82.7%		72.6%		92.2%	
Operating Expenses												
People	91.0	98%	82.1	89%	64.9	100%	44.4	87%	30.3	101%	296.8	97%
Infrastructure	30.0	82%	17.7	80%	18.0	84%	14.8	81%	8.2	80%	89.3	91%
Contingency Staff	24.2	134%	12.5	80%	9.1	123%	7.4	87%	2.8	82%	66.0	100%
Product Development	24.2	97%	10.7	75%	14.2	157%	5.0	57%	4.8	46%	58.8	87%
Marketing	72.7	84%	131.0	102%	30.8	82%	7.3	84%	(2.0)	80%	242.8	81%
Other	1.5	249%	(0.3)	nm	2.2	nm	1.3	106%	1.1	nm	5.8	nm
Product Support Services	46.2	87%	123.2	111%	46.1	96%	2.5	80%	(0.1)	nm	217.2	101%
Tax, Insurance & Settlement	2.7	137%	29.1	107%	0.5	82%	0.2	nm	1.2	180%	33.3	116%
Bad Debt Expense	4.8	158%	21.5	104%	1.9	121%	0.3	102%	0.3	nm	28.3	113%
R&D Shared Resources	12.2	136%	8.8	50%	(3.4)	nm	3.9	144%	(43.2)	80%	(21.9)	nm
Total Operating Expenses	328.2	91%	417.0	101%	189.2	82%	86.8	80%	4.5	212%	1,008.8	94%
Responsibility Margin	351.7	nm	1,644.5	109%	64.6	nm	(64.6)	nm	24.9	nm	2,308.1	134%
% of Net Revenue	47.2%		74.5%		20.3%		(26.6%)		22.6%		69.6%	
Allocation	77.3	82%	270.4	82%	56.2	87%	41.8	90%	1.0	6%	446.5	82%
Contribution Margin	\$324.4	nm	\$1,274.1	11%	\$4.3	nm	\$118.2	nm	\$22.0	nm	\$1,581.7	152%
% of Net Revenue	43.6%		57.8%		1.3%		48.4%		19.9%		47.7%	
% of Prior Year												
Net Revenue	236%		18%		157%		91%		17%		136%	
Gross Margin	250%		182%		164%		139%		22%		152%	
Responsibility Margin	nm		18%		nm		nm		nm		21%	
Contribution Margin	nm		17%		nm		nm		nm		nm	
Average Headcount	1,212	98%	772	80%	883	89%	613	94%	303	77%	3,780	89%
Net Revenue per Employee	\$614	102%	\$2,810	11%	\$362	118%	\$39	89%	\$362	nm	\$2,101	139%
People & Infrastructure cost per Head	\$133	109%	\$136	108%	\$137	103%	\$138	97%	\$138	108%	\$136	103%
Marketing Exp % of Net Revenue	9.7%	64%	6.0%	88%	12.0%	82%	29.3%	77%	0.2%	nm	7.3%	73%

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Business Results

- Business Systems Division (BSD) net revenue of \$285 million was almost \$100 million, or 53% over plan for the quarter, and \$173 million (172%) over the prior year on strong sales of Windows NT and BackOffice. For the first three quarters of FY96, shipments of Windows NT Servers have more than tripled to 281,000 licenses as compared to the same period during FY95, while Windows NT Workstation shipments have grown 300% to 696,000 licenses. MS Exchange, released in late March, generated revenue of \$4 million during the quarter. Year-to-date BSD revenues total \$746 million, 56% ahead of plan.
- Personal Systems Division (PSD) net revenue adjusted for channel sell-through of Windows 95 and MS Plus! totaled \$725 million for the quarter, exceeding plan by 8%. Sales of Windows 95 totaled \$453 million during the quarter and represented 62% of total PSD revenue. Life to date sell-through of Windows 95 totals \$1.18 billion, or 97% of plan with approximately \$163 million remaining as channel inventory at the end of the quarter. Year-to-date PSD net revenue of \$2.21 billion is 7% ahead of plan.
- Developer Division recorded revenue of \$111 million, or 99% of plan for the quarter and on a year-to-date basis, revenue is \$310 million or 12% ahead of plan. The year-to-date results, are fueled by strong sales of Visual Basic (VB) and MSDN. Year-to-date VB sales of \$120 million have grown 115% over the same period last year.
- Q96-3 gross margin for the Platform Group was 93% of net revenue versus plan of 90%. BSD and Developer both showed improved gross margins relative to plan primarily due to savings in product packaging, and the impact of faster shift CD ROM and Select sales than planned.
- Platform Group operating expenses were \$541 million for the quarter, 2% below plan. Positive variances in marketing spend (\$12 million), lower PSS costs (\$5 million), and below plan staffing levels (\$6 million), were offset by higher than planned IPR amortization of \$9 million. IPR associated with the Network Managers Ltd acquisition (\$14 million) and Digital's clustering technology (\$1 million) were written off during the quarter, while Developer was over plan due to the Netwise acquisition which was not budgeted. Year-to-date operating expenses total \$1.0 billion, 6% below plan.
- Q96-3 responsibility margin of 63% was an eight percentage point improvement over plan, primarily driven by BSD results.

Outlook

- PSD development is focused on the launch of the Internet Starter Kit in the retail channels and distribution of the Internet Explorer 3.0 beta online.
- Q96-4 BSD efforts are focused on the recent releases of SQL 6.5 and Exchange 4.0. A 44 city technical road show is planned, along with key programs and product evaluation kits to increase reseller depth and breadth. Windows NT Server continues to gain momentum. IDC recently forecasted a 5 year annual growth rate of 31%. In addition, the Gartner group projects the market for relational database servers on Windows NT will grow at an annual rate of 44%.
- Developer is expecting strong Q96-4 sales driven by Visual Basic, Visual C++, and the channel launch of MSDN.

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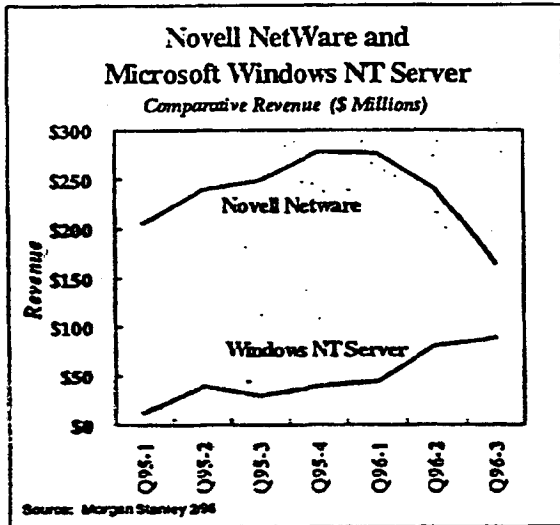
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Business Systems Review

Investments & Product Highlights

Revenue Trends for Windows NT Server vs. NetWare



- The Windows NT 4.0 Server and Workstation beta 1 release was completed in late January and made available to over 100,000 customers and developers via the Internet and MS Developer Network. The 4.0 release, which is expected to RTM in July 1996, focuses on combining Windows 95 ease of use with Windows NT robustness and security.
- MS Exchange was released to manufacturing in March and announced at NetWorld+Interop on April 2. At launch, more than 60,000 people were already using the product, 130 developers had announced compatible products, and 12,000 solution providers had been trained to support the product. Channel sell-in exceeded \$4.4 million after only two weeks. A number of major corporations have committed to migrating to Exchange including Boeing and EDS. Boeing plans to deploy 65,000 seats over the next three years while EDS will use Exchange to replace 18 different messaging systems used currently in 40 countries over the next 18 months.
- MS SQL Server 6.5 released to manufacturing on April 5. This latest release delivers improved scalability and administration, transaction coordination, heterogeneous replication, and an integrated Web assistant.
- MS Internet Information Server (IIS) launched in February. An estimated 30,000 copies were downloaded from the MS Web page on the Internet in the subsequent six weeks. IIS is a fast, easily installed server that supports multiple Internet protocols. IIS can be downloaded for free, purchased as a standalone product for \$99, or acquired as functionality integrated into the Windows NT Server 3.51 Network Value Pak.
- MS announced an agreement with DEC and MCI in which MCI will integrate MS Exchange with MCI Mail, use Exchange as its internal messaging platform, and adopt Windows NT Server and Internet Information Server as its Internet and Intranet platform.
- MS and Wang announced public availability of the specification and sample code for the MAPI-Workflow Framework (MAPI-WF). The Framework provides standards for the inter-operation of production and messaging-based workflow systems and also builds upon MS messaging API to create a foundation for messaging-based workflow solutions.
- MS announced the Win32 Driver Model which provides a common driver architecture for the Windows 95 and Windows NT operating systems. With this model, a single device driver can be written for both operating systems, making it faster and easier for hardware developers to create higher-quality drivers and innovative hardware at a lower cost.
- MS in conjunction with 3Com, Ascend Communications, ECI Telematics, and U.S. Robotics announced the point-to-point tunneling protocol (PPTP) which will enable remote users to access corporate networks securely across the Internet.
- In March, SAP AG announced more than 1,000 installations of the SAP R/3 system are running on Windows NT Server, with more than 100 R/3 installations installed on MS SQL Server 6.0. According to SAP, more than 30 percent of all new R/3 customers have chosen Windows NT.

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Competition

- Netscape announced two new Web server products, Enterprise Server 2.0 and FastTrack Server, in March. Both products support Java and JavaScript, incorporate SSL security, and bundle the Navigator Gold browser. FastTrack (\$295) emphasizes ease of setup, while the enterprise edition (\$995) adds document and network management capabilities.
- Netscape also announced SuiteSpot, an integrated suite of cross-platform server software that will compete with BackOffice. SuiteSpot will include its Enterprise Web publishing server, LiveWire Pro development environment, Mail Server, News Server, Catalog Server, and Proxy Server. Pricing for the suite is expected to be \$3,995 with individual components available at \$995.
- In late January, Netscape announced that 15 companies had created software components which extend Web browser capabilities using the Netscape Plug-In API. This API enables developers to extend browser functionality and provides a framework for porting existing client/server applications to the Internet
- In March, Netscape signed a deal with five Internet search companies which could produce up to \$25 million in additional annual revenue. Services provided by Yahoo!, Excite, Infoseek, Lycos, and McKinley will now be directly accessible from the Netscape home page.
- Oracle announced Personal Oracle Lite, a single user relational database that has a one megabyte of memory footprint and costs \$195 per user. The new database is designed for mass deployment, mobile, and embedded applications while delivering broad compatibility with Oracle7.
- Lotus launched Lotus Notes 4.0 in January and began manufacturing versions for IBM AIX, Sun Solaris, and HP-UX. Notes servers for UNIX systems will include support for symmetric multiprocessors, as well as Lotus InterNotes Web Navigator, which provides World Wide Web access from within Notes.
- IBM and Tivoli Systems, Inc. announced a merger agreement in January. Tivoli is a leading provider of systems management software and services that help customers reduce the cost and complexity of managing distributed client/server networks of personal computers and workstations.
- In February, Novell announced quarterly revenues of \$438 million, down 11% from the prior year and below most analyst expectations. Management also indicated revenues for the upcoming quarter could be dampened by as much as \$225 million due to excess channel inventory.
- Novell finalized an agreement with Sun Microsystems to license Java for use with NetWare. As part of the agreement, Novell is authorized to offer its developers and customers access to the complete Java platform, including the core power of Java—the Java Virtual Machine.

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Personal Operating Systems Review

Investments & Product Highlights

- Windows 3.x life-to-date user shipments exceeded 115 million at March 31, 1996. Windows 95 life-to-date sell-through are estimated to be about 24 million.
- MS and America Online entered into a strategic and technological agreement in March. In exchange for adding an AOL subscription icon to the Windows 95 desktop, AOL is committing to use Internet Explorer as its standard, integrated customer browser. AOL has about five million subscribers and will integrate Internet Explorer starting with the IE 3.0 release this summer.
- MS launched the mainland Chinese version of Windows 95 in March. To date, Windows 95 has been localized in 29 languages and MS-Plus!, the Windows 95 add-on, in 15 languages. Internet Explorer 2.0 for Windows 95 is available in 25 languages.
- The Windows 95 Service Pack was made available in February. Windows 95A, released primarily to encourage corporate adoption of Windows 95, consists largely of system-level bug fixes and networking enhancements, and is available for download from the Internet and from PSS. OEM Service Release 1, which contains Windows 95A code, was released to OEMs in February.
- The Games for Windows 95 CD was released to retail outlets in January. Priced at \$9.95, the CD includes 39 playable trial-version games from leading games makers.
- The Internet Starter Kit (ISK) was released to manufacturing in March. ISK contains the Internet Explorer for Windows 95 and 30 days trial use of the MS Network. The estimated retail price is \$24.95 and the Multi-lingual Edition supports 23 languages on one CD.



Competition

Internet Browser Share (as of 4/4/96)	
Netscape Navigator (all platforms)	39%
America Online Browser	25%
Mosaic	7%
Microsoft Internet Explorer	5%
Other Browsers	15%
Unsure	9%
Total	100%

Source: Market Decisions random sampling of 274 respondents who accessed the WWW in the prior two weeks.

- Netscape shipped Navigator 2.0 in February, with new collaborative features such as interactive electronic mail, integrated threaded discussion groups and support for Live

Objects—or interactive multimedia content—including frames, inline plug-ins, JavaScript and Java applets. Support is also included for embedded spreadsheets, animation, streaming audio and video, and 3-D viewing capabilities.

- Netscape will offer a limited version of its Navigator browser over AOL this fall. Netscape Navigator will also be available on the Compu-Serve online service.
- Netscape announced the inclusion of Netscape Navigator as part of AT&T's dial-up version of AT&T WorldNet Service. The AT&T branded, pre-configured version of Netscape Navigator software is available to subscribers of the service at no extra charge.

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- IBM announced OS/2 Warp licenses now total six million and life to date OS/2 purchases exceed more than 12 million. The next desktop upgrade, code-named Merlin, is due in the second half of this year.
- IBM said it will not deliver another OS/2 version for the PowerPC during 1996 and will focus OS/2 marketing and development efforts on the Intel platform, retreating from its promise to deliver PowerPC networking features.
- Apple Computer reported a record loss of \$740 million in its fiscal second quarter. More than half of this loss is attributable to inventory write-downs and another 25% to fund a previously announced restructuring. Revenue for the period was \$2.2 billion, a 18% decrease compared to same quarter last year.
- Apple announced the availability of System 7.5 Update 2.0 for Apple Macintosh and Mac OS-compatible computers. In addition to stability improvements, System 7.5 Update 2.0 offers Open Transport 1.1, the standards-based Mac OS networking and communications system, which now supports most 68030, 68040, and additional PowerPC-based systems.
- Apple licensed the Mac 7.5.x OS operating system to Motorola in a broad agreement which for the first time allows a licensee to sub-license the Mac OS to other manufacturers. Motorola will have rights to distribute the Mac OS with both the Power Macintosh and PowerPC platform specifications.
- Results of Apple's operating systems licensing program have been less than impressive. Resellers indicate that instead of broadening market share for Apple, clone computers may have cannibalized Apple's sales.
- Apple and Bandai Co. Ltd. are developing a simplified home computer called Pippin Atmark, targeted primarily at the games and education markets. The machine will contain a Power PC 603 chip with six megabytes of memory, CD-ROM drive, 14.4 Kb modem, hand-held controller, Netscape Navigator, and will use a television set for display. Bandai is responsible for manufacturing and sales, and will pay Apple a royalty of less than \$20 a machine. Pippin is currently available in Japan for \$620.
- Sega Enterprises plans to introduce a \$150 upgrade kit to connect its Saturn video game machine to the Internet. The kit, consisting of a modem, software and possibly a keyboard, and game machine together will cost about \$350.
- Sony Corp. plans to enter the PC market this fall with Intel based machines designed specifically for home use. The new machines will emphasize ease of connection with TVs, VCRs, and stereos and will incorporate a new multi-media operating system that works with Windows 95. The new line will most likely contain DVD players and possibly other entertainment devices, including the PlayStation. Pricing for the new machines is expected to be between \$2,000 and \$3,000.

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Developer Review

Investments & Product Highlights

- MS announced ActiveX, a set of technologies which enable software developers and Web designers to build dynamic content, including animation, 3-D virtual reality, video and other multimedia features for the Internet and the PC. ActiveX will allow developers to easily build Web content using ActiveX controls (formerly OLE controls), active scripts, and active documents. ActiveX embraces Internet standards and will be delivered on multiple platforms.
- MS reached agreement with Sun Microsystems to license Java for inclusion in its products. As part of this agreement, MS will develop and maintain the Java reference implementation for the Windows platform.
- Over 5,000 developers attended the Internet Professional Developers Conference in San Francisco on March 12-14. MS unveiled its newest tools and technologies, including Java support in the Internet Explorer 3.0 Web browser, and indicated future versions of Internet Explorer will include the ability to run Java applets distributed over the World Wide Web.
- MS announced the ActiveX Plug-in for Netscape(TM) Navigator, co-developed with nCompass Labs Inc., which enables Navigator users to view the rich, dynamic Internet content created using ActiveX.
- NetManage and MS announced availability for a set of Internet ActiveX controls. The Internet Control Pack, jointly developed by NetManage and MS, allows developers to rapidly integrate Internet functionality into their development projects.
- On March 11, MS acquired Aspect Software Engineering, a provider of leading-edge database technology that enables database connectivity over the Internet. Aspect's first product, dbWeb(TM), is a high-performance middleware product that gives World Wide Web servers access to information stored in databases without additional programming.
- MS announced the acquisition of Colusa Software Inc. on March 12. Colusa's Omniware product enables developers to create memory-protected, high-performance Internet components in popular programming languages, including C and C++.

Competition

- Sun Microsystems created a new business unit, JavaSoft, whose mission is to develop, market, and support products based on Java technology. The JavaSoft business unit is tasked with enhancing the Java programming language and working with third parties to create applications, tools, systems platforms and services to augment the language's capabilities.
- JavaSoft announced JDBC, a database access application programming interface (API) that enables developers to write Java applications which access databases. JDBC supports interchangeable DBMS drivers through a driver manager that automatically loads the right JDBC-compatible driver required to access a given database.
- Borland announced the availability of its C++ Development Suite 5.0, an integrated suite of tools designed to provide a fast, flexible environment for software developers to build both 32- and 16-bit applications.
- Oracle Corporation announced third quarter revenues increased 41 percent to a record \$1.02 billion from \$722 million in the same period last year. Net income for the period was reported at \$146 million, or \$0.33 per share, compared to net income of \$105 million, or \$0.24 per share, in the third quarter of 1995.

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Consumer Systems

Authoring Tools

- MS began shipping Softimage 3D 3.0 for Windows NT, offering the same animation environment as 3D for SGI systems. 3D NT delivers workstation-class performance at approximately 50% of the overall system cost. Softimage will continue to develop high-end animation tools for both NT and SGI platforms. SGI responded with price cuts and new product introductions.
- The Softimage Software Developers Connection was announced this quarter. The program features extensive technical and marketing support, and a new SDK based on Softimage 3D, for independent software vendors and customers to create custom plug-in applications for the next version of Softimage 3D.

Public Network Services

- MS announced the development of Merchant Server, an Internet shopping platform planned for delivery to WalMart later this year.
- DIRECTV and MS announced joint efforts to enable PCs to receive broadcast video programming and interactive data services. Under the agreement, MS will become a DIRECTV licensee, providing software and working with OEMs to develop specifications for decoders.
- TCI formed a new unit called TCI Internet Services to develop and manage its entry into the Internet services business, including TCI's investment in @Home. @Home, a joint venture between TCI and Kleiner Perkins, is developing an Internet backbone and access network engineered to provide consumers broadband access to the World Wide Web. Service is expected in selected markets during 1996.
- Oracle demonstrated a prototype network computer that has connections for conventional or cable-television modems, a keyboard, and a mouse or remote control. Hardware companies are expected to pay Oracle about \$25 per machine for supplying the software for the devices. The software includes a Web browser and some standard productivity programs that will read files generated by MS Office. The retail price of the device will be around \$500.
- Visa and MasterCard agreed on security standards for monetary transactions over the Internet. The new technology blueprint, named Secure Electronic Transactions (SET), allows software developers for the Internet's World Wide Web to incorporate a standardized system for accepting credit-card payments. First Data Corporation and Netscape introduced an Internet payment processing service that is compliant with SET. MS signed a similar agreement with American Express Travel Related Services.
- VeriFone announced separate agreements with Netscape and Oracle to develop software to make it easier for merchants and banks to accept credit-card payments over the Internet. The proposed software will bundle VeriFone's credit-card processing technology with Netscape's Commerce Server software, enabling people to use credit cards to make secure purchases on the Web independent of the merchant's bank. The Oracle alliance goes one step further by embedding a VeriFone program, called Pay Window, into Oracle's program for consumers browsing the Web.

Advanced Development

- Interest in MS's handwriting recognition technology has been strong. Feedback from Far East prospects that have seen a demonstration suggest it is much more accurate than any product on the market today, achieving 99.8% accuracy with trained data, an improvement over Motorola's Lexicus which claims 90% accuracy.

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LOCALIZATION

(in thousands)	Desktop Apps		Developer		Consumer		Personal Systems		Business Systems		Other		Total	
	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan
Period-end Headcount														
Japan	49	61	37	41	24	30	12	20	33	43	41	44	196	239
Redmond	72	84	17	23	5	4	52	61	33	39	79	81	258	292
Korea	16	21	9	11	4	6	4	4	9	11	1	2	43	55
Taiwan	12	12	8	8	0	0	5	5	10	10	3	3	38	38
China	7	14	3	6	0	0	3	3	2	5	2	1	17	29
Internal	102	110	31	34	49	64	58	62	61	66	62	61	283	287
Total	259	322	105	123	82	104	134	155	148	174	184	182	915	1,050
External Cost														
Japan	\$ 5,221	\$ 5,993	\$ 823	\$ 4,147	\$ 1,347	\$ 3,489	\$ 2,879	\$ 6,265	\$ 3,894	\$ 4,799	\$ 1,308	\$ 2,431	\$ 15,892	\$ 30,718
Redmond	4,722	7,285	2,378	2,443	14,844	5,128	2,888	6,853	1,242	3,873	288	1,487	\$ 21,754	\$ 26,879
Korea	67	429	88	825	40	288	31	283	124	848	-	-	\$ 330	\$ 2,137
Taiwan	636	816	241	319	77	99	251	322	285	567	-	-	\$ 1,800	\$ 2,054
China	74	283	32	168	-	-	36	191	41	217	-	-	\$ 183	\$ 989
Internal	6,226	6,828	8,531	6,886	6,804	26,729	2,725	5,732	3,617	4,820	1,516	2,280	\$ 31,429	\$ 33,397
Total	\$ 18,846	\$ 21,284	\$ 9,273	\$ 14,579	\$ 24,372	\$ 30,871	\$ 9,182	\$ 19,446	\$ 12,113	\$ 18,726	\$ 3,124	\$ 6,208	\$ 75,178	\$ 116,154
Internal Cost														
Japan	\$ 7,285	\$ 12,984	\$ 3,708	\$ 5,918	\$ 3,288	\$ 5,888	\$ 2,826	\$ 5,866	\$ 6,250	\$ 8,880	\$ 5,538	\$ 13,207	\$ 28,130	\$ 52,301
Redmond	6,642	10,487	1,888	2,840	483	888	4,787	7,533	3,944	4,865	7,288	8,888	23,871	\$ 28,851
Korea	832	1,540	482	624	288	437	185	291	200	801	125	180	2,423	\$ 4,884
Taiwan	640	1,886	429	347	-	174	288	217	836	851	161	86	2,837	\$ 3,351
China	758	850	325	364	-	-	325	182	217	303	217	103	1,843	\$ 1,832
Internal	7,194	8,894	3,774	3,283	4,911	6,644	5,153	6,807	5,197	6,908	5,823	6,320	32,823	\$ 38,437
Total	\$ 23,735	\$ 36,401	\$ 9,263	\$ 13,435	\$ 8,868	\$ 14,151	\$ 13,544	\$ 20,437	\$ 15,744	\$ 22,119	\$ 18,351	\$ 28,824	\$ 92,106	\$ 135,407
Total Localization Cost														
Japan	12,796	\$ 18,544	\$ 4,528	\$ 9,968	\$ 4,633	\$ 9,401	\$ 4,884	\$ 11,831	\$ 11,344	\$ 17,439	\$ 6,847	\$ 15,638	\$ 45,022	\$ 82,919
Redmond	11,264	17,782	3,946	5,284	14,505	6,116	7,886	14,186	4,286	8,678	7,547	10,285	48,555	62,430
Korea	999	1,572	530	1,328	249	797	226	974	824	1,241	125	190	2,753	6,201
Taiwan	1,279	2,662	670	637	77	272	519	539	831	1,156	161	96	3,637	\$ 5,466
China	833	1,243	357	532	-	-	361	373	256	620	217	103	2,826	\$ 2,771
Internal	15,430	15,532	8,305	10,249	13,715	33,375	8,978	12,309	8,814	11,729	7,129	8,600	62,281	\$ 91,634
Total	\$ 42,701	\$ 57,735	\$ 18,337	\$ 29,014	\$ 33,180	\$ 49,962	\$ 22,734	\$ 39,843	\$ 25,257	\$ 40,875	\$ 22,675	\$ 33,012	\$ 165,264	\$ 251,561

NOTE: 1) Redmond Internal Cost is estimated based on period end headcount multiplied by the budgeted average cost per head for a Redmond R&D employee.
 2) Other includes: ACG, MOS/MSA, CSD, PPG, WPG
 3) FY96 Plan is revised from Q96-2 to include additional departments involved in localization.

Localization Costs

- MS plans to spend over \$250 million in FY96 to localize over 600 projects. A project is defined as a unique combination of product, version and language. This definition excludes minor localization efforts such as porting to additional platforms or localization of retail boxes and printed documentation. The year in which a localization cost is incurred often does not correspond with the year in which the project is released. Hence, a significant amount of the localization costs incurred in FY96 is for projects that will be released in FY97.
- External costs include third party product development and contingent staff, while internal costs include people and infrastructure.
- The following list of localization projects summarizes the FY96 activity to date with most of them being completed prior to Q96-3:
 - Desktop Applications released 112 language versions of Office, Word, Excel, PowerPoint, and Project. Office and its components were localized into 25+ languages.
 - Developer released 40 language versions of products such as Access, Visual Basic and Visual FoxPro.
 - Consumer released 100 language versions of Works and various multimedia products. Significant investments were also made for five language versions of Encarta.
 - Personal Systems released 27 language versions of Windows 95.
 - Business Systems released 30 language versions of products such as NT Server and NT Workstation 3.51.

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KEY PRODUCTS RELEASE SCHEDULE

Business Unit/Product	RTM Date		Business Unit/Product	RTM Date	
	Act/Fcst	Plan		Act/Fcst	Plan
Business Systems:			Consumer:		
Internet Web Server 1.0	Feb-96	Feb-96	Automap Streets	Jun-95	Jun-95
MS Exchange Server 4.0	Mar-96	Jun-95	Bookshelf 95	Jul-95	Jun-95
BackOffice 2.0	May-96	Mar-96	Win Works 95	Jul-95	Jun-95
Internet Access Server 1.0	Jul-96	Apr-96	Creative Writer/Fine Artist Toolbox	Jul-95	Jun-95
Win NT Workstation 4.0	Jul-96	Jul-96	Oceans	Jul-95	Jul-95
Windows NT Server 4.0	Jul-96	Jul-96	Sidewinder Joystick	Aug-95	Aug-95
Systems Mgmt Server 1.2	Jul-96	Jun-96	Fury3	Aug-95	Aug-95
FPNW / DSMN "SUR"	Aug-96	Aug-96	EasyBall	Aug-95	Aug-95
SNA Server 3.0	Sep-96	Sep-96	Win Publisher 3.0	Aug-95	Aug-95
Viper 1.0	Nov-96	Nov-96	Win Encarta 96	Aug-95	Aug-95
			Win Encarta World Atlas	Sep-95	Sep-95
Consumer Systems Division:			MSB Oceans	Sep-95	Sep-95
Teoriz Irix 4.0	Apr-96	Apr-96	World of Flight	Sep-95	Sep-95
Digital Studio NT 1.0	Oct-96	May-96	Cinemania 95	Sep-95	Oct-95
Softimage 3D 3.0 NT	Jan-96	Mar-96	Music Central	Sep-95	Nov-95
Softimage 3D 3.0 NT	Apr-96	Apr-96	3D Movie Maker	Oct-95	Sep-95
			Golf 2.0 CD	Oct-95	Jan-96
Developer:			Car Source On-line	Oct-95	Sep-95
Visual Basic 5.0	Oct-96	Oct-96	Mac Encarta 96	Nov-95	Nov-95
Visual C++ 5.0	Nov-96	Nov-96	Return of Arcade	Feb-96	Oct-95
Visual FoxPro 4.0	Jul-96	Jul-96	Reader's Digest Do-It-Yourself	Feb-96	Sep-95
Internet Studio	Nov-96	Nov-96	Complete Gardening	Feb-96	Feb-96
MSDN Universal	Jul-96	Jul-96	Home Health On-Line	Feb-96	Oct-95
SourceSafe 5.0	Oct-96	Oct-96	MSB - Geology	Feb-96	Nov-95
Jakarta 1.0	Jul-96	Jul-96	Rabbit Ears Koi and the Kola Nuts	Mar-96	Dec-95
			Bookshelf 96	Apr-96	Feb-96
Personal Operating Systems:			Car Source On-Line 1.1	May-96	May-96
Internet Explorer 3.0	Jun-96	Jun-96	Close Combat	Jun-96	N/A
Windows OPK 2	Jul-96	Jul-96	Magellan 3D Zoom Mouse	Jun-96	Jun-96
"Nashville"	Sep-96	Sep-96	Rabbit Ears Paul Bunyan	Jun-96	Jun-96
			Wine Guide 2.0	Jun-96	Jun-96
			Cinemania 97	Jun-96	Jun-96
			Music Central 2.0	Jun-96	Jun-96
			Soccer	Aug-96	Jan-96
			Summit (Mt. Climbing game)	Sep-96	Nov-95
			Desktop Applications:		
			Win Office 97	Oct-96	Sep-96
			Mac Office 97	May-97	May-97
			Outlook	Oct-96	Oct-96
			Front Page	Nov-96	Nov-96
			Win Project	Oct-96	Oct-96
			Win Publisher	Oct-96	Oct-96
			Win OfficePro 95	Oct-95	Oct-95
			Access 7.0	Oct-95	Oct-95
			Team Manager	Oct-96	Apr-96
			Office 97	Jul-96	Jun-96
			REN	Jul-95	Jun-95
			Desktop Finance:		
			Money 4.0	Aug-95	Aug-95
			Money 97	Jul-95	Jul-95

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SALES, MARKETING & SUPPORT

Q96-3 Finished Goods Summary

	North America		Europe		ICOM		Far East		Total WW FG	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Gross Revenue	\$310.1	85%	\$455.3	96%	\$122.7	83%	\$283.5	95%	\$1,382.6	87%
Desktop BS Adjustment	142.8	nm	116.1	nm	13.2	nm	7.2	nm	278.3	nm
Revenue Adjustments	(46.1)	nm	(14.5)	nm	(9.4)	nm	(15.5)	nm	(65.5)	nm
Net Revenue	606.8	107%	647.9	108%	126.4	92%	283.2	98%	1,586.4	104%
Cost of Revenue	94.7	83%	72.0	103%	35.9	132%	33.1	60%	226.7	93%
Gross Margin	\$12.1	118%	48.9	98%	90.5	82%	252.1	108%	1,389.6	98%
% of Net Revenue	84%		87%		72%		88%		88%	
Controllable Expenses										
People	42.9	95%	42.0	104%	14.4	95%	12.1	88%	111.4	97%
Infrastructure	14.4	89%	12.6	109%	5.0	93%	3.8	78%	35.7	94%
Other Misc Expenses	6.0	80%	3.9	94%	2.8	80%	2.0	100%	14.8	85%
Marketing	86.0	94%	52.5	108%	10.9	84%	15.4	91%	174.9	97%
Marketing Recovery	(7.7)	nm	(6.2)	nm	(7.1)	nm	(4.5)	nm	(25.6)	nm
Direct Expenses	137.6	88%	132.7	105%	32.0	88%	28.8	84%	321.1	95%
Distribution:										
MCS Costs	36.3	103%	31.2	104%	2.9	88%	1.0	90%	41.0	113%
MCS Revenue	(27.8)	113%	(71.3)	104%	(2.1)	88%	(0.4)	27%	(61.5)	117%
GLA Costs	0.7	92%	9.5	84%	2.6	100%	2.2	92%	15.0	88%
PSS Costs	82.1	80%	31.8	83%	5.0	81%	14.2	82%	131.0	87%
PSS Revenue	(18.2)	72%	(7.1)	81%	(1.0)	81%	(1.7)	47%	(28.0)	72%
Distributors	60.8	96%	34.0	84%	7.4	96%	15.3	82%	117.5	92%
Total Controllable Expenses	198.4	88%	136.7	96%	33.4	90%	44.1	86%	418.6	91%
Responsibility Margin	313.7	128%	359.2	115%	93.0	77%	239.0	119%	932.0	115%
% of Net Revenue	82%		63%		40%		73%		59%	
Shared Resources	18.1	48%	10.4	48%	1.7	84%	1.9	25%	32.1	45%
Corporate Allocations	122.0	106%	95.6	106%	27.0	106%	34.7	106%	279.4	106%
Contribution Margin	\$173.6	104%	\$253.1	127%	\$22.5	59%	\$171.3	115%	\$629.5	130%
% of Net Revenue	29%		45%		18%		60%		39%	
% of Prior Year										
Gross Revenue	115%		107%		121%		211%		123%	
Net Revenue	141%		133%		129%		207%		148%	
Gross Margin	146%		135%		123%		217%		149%	
Responsibility Margin	168%		151%		126%		249%		179%	
Contribution Margin	230%		166%		104%		260%		196%	
Dollar per head, annualized in thousands										
Average Sales Headcount	1,891	90%	1,282	95%	698	97%	399	84%	4,070	80%
Net Revenue per head	\$1,435	119%	\$1,772	114%	\$724	95%	\$2,859	122%	\$1,559	112%
People and Infrastructure cost per head	\$136	104%	\$170	111%	\$111	98%	\$159	91%	\$145	104%
Marketing Exp % of Net Revenue	12%	78%	8%	85%	8%	87%	4%	81%	9%	82%

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FYTD96 Finished Goods Summary

	North America		Europe		ICON		Far East		Total WW FG	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Gross Revenue	\$2,262.7	104%	\$1,812.2	113%	\$453.3	104%	\$711.3	145%	\$5,371.1	112%
Desktop 95 Adjustment	(201.9)	nm	(80.7)	nm	(4.9)	nm	(54.8)	nm	(343.3)	nm
Revenue Adjustments	(180.9)	nm	(69.8)	nm	(30.6)	nm	(35.0)	nm	(277.2)	nm
Net Revenue	1,966.8	95%	1,661.8	107%	387.7	96%	646.3	133%	4,840.2	104%
Cost of Revenue	378.1	104%	215.3	101%	85.2	103%	88.0	97%	786.6	101%
Gross Margin	1,588.8	93%	1,446.5	108%	302.5	97%	558.3	143%	3,953.6	104%
% of Net Revenue	81%		87%		78%		87%		84%	
Conspicuous Expenses										
People	123.0	88%	121.0	88%	42.1	94%	36.1	89%	322.0	92%
Infrastructure	41.8	85%	35.2	88%	14.2	90%	12.6	87%	103.8	91%
Other Misc Expenses	23.5	88%	13.9	113%	12.9	129%	5.1	132%	55.5	108%
Marketing	285.0	87%	186.9	104%	41.9	95%	38.3	88%	563.1	93%
Marketing Reserve	(28.7)	nm	(22.3)	nm	(4.7)	nm	(12.5)	nm	(78.2)	nm
Direct Expenses	445.3	85%	333.7	88%	108.9	88%	100.7	84%	888.6	90%
Distribution										
MCS Costs	68.0	108%	26.7	120%	8.0	88%	2.7	51%	105.4	108%
MCS Revenue	(79.8)	120%	(26.8)	120%	(6.3)	74%	(1.9)	33%	(113.8)	119%
GSA Costs	2.2	96%	31.9	97%	7.2	92%	6.5	84%	47.8	98%
PSS Costs	343.2	84%	181.2	88%	15.8	83%	38.3	87%	588.5	90%
PSS Revenue	(64.8)	81%	(25.7)	83%	(3.2)	88%	(9.3)	48%	(102.8)	88%
Distribution	189.3	102%	108.0	88%	21.2	97%	42.0	87%	360.5	98%
Total Conspicuous Expenses	634.6	89%	441.8	88%	128.1	92%	142.7	87%	1,347.2	97%
Responsibility Margin	948.2	96%	1,084.7	119%	259.3	98%	429.8	143%	2,662.0	112%
% of Net Revenue	48%		65%		66%		66%		55%	
Shared Resources	88.0	81%	54.3	82%	6.0	77%	16.4	79%	164.7	87%
Corporate Allocations	326.6	96%	256.1	96%	72.5	96%	83.3	96%	748.5	98%
Contribution Margin	532.5	99%	569.3	128%	119.9	101%	319.3	283%	1,531.0	128%
% of Net Revenue	27%		42%		31%		49%		32%	
% of Prior Year										
Gross Revenue	128%		158%		188%		216%		187%	
Net Revenue	142%		146%		137%		193%		149%	
Gross Margin	147%		148%		139%		204%		150%	
Responsibility Margin	148%		158%		133%		223%		158%	
Contribution Margin	139%		168%		123%		223%		167%	
Dollar per head - annualized in thousands										
Average Sales Headcount	1,678	89%	1,251	93%	653	93%	379	92%	3,061	91%
Net Revenue per Head	\$1,158	107%	\$1,771	115%	\$412	108%	\$2,223	144%	\$1,576	114%
People and Infrastructure cost per head	\$131	98%	\$166	107%	\$115	100%	\$171	94%	\$143	101%
Marketing Exp % of Net Revenue	13%	84%	10%	89%	10%	93%	7%	89%	11%	84%

Channel Highlights

- Q96-3 gross finished goods (FG) revenue (sell-in, less actual returns) was \$1.39 billion, 87% of plan. The plan shortfall was due to returns of \$231 million for Desktop 95, primarily in North America.
- Net FG revenue for the quarter was \$1.59 billion, or 4% better than plan, including a \$279 million adjustment for channel sell through and returns of Desktop 95. Above plan revenue in North America and Europe were offset by shortfalls in ICON and the Far East.
- Year-to-date gross finished goods revenue of \$5.57 billion is 12% ahead of plan due primarily to Office and Office Pro revenue \$470 million

ahead of plan offset by Desktop 95 reserves of \$363 million and BSD products over plan by \$239 million or 64%.

- Year-to-date net revenue of \$4.68 billion is 4% ahead of plan with Far East and Europe over plan by 33% and 7%, respectively, offset by negative variances in ICON (2%) and North America (5%).
- Desktop Applications FG sales in the quarter totaled \$960 million, \$38 million above plan. Year-to-date DAD revenue was 16% above plan and comprised 56% of worldwide gross FG revenue.

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- Consumer division FG sales for Q96-3 totaled \$101 million, 35% under plan with sales exceeding plan only in Far East. Year-to-date revenue from Consumer products was \$437 million or 13% below plan mainly due to lower than plan software titles particularly Bob and offset by higher than planned Joystick sales.
- Personal Systems division returns of \$136 million (\$128 million of Windows 95) exceeded total PSD FG sell-in revenue of \$127 million resulting in "negative" gross revenue of \$8 million for PSD in Q96-3.
- Business Systems division FG gross revenue for Q96-3 was \$255 million, 70% over plan with Windows NT and BackOffice continuing to show strength and growth across all geographies.
- Developer Division FG sales in the quarter was \$119 million, exceeding plan by 2% driven primarily by the release of Visual Basic 4.0 in Q96-2. Year-to-date revenue from Developer products was 11% over plan with Visual Basic 4 sales driving the positive variance.
- Customers may return product in accordance with distribution contract terms. These terms vary by country, but allow returns for a percentage of the previous quarter's purchases, and for stock rotation associated with new product releases.
- Q96-3 returns totaled \$313 million, primarily for Windows 95, MS Plus!, Office 95, Office Pro 95, Excel 95, and Word 95 related to inventory accumulated during the launch and channel fill in Q96-1. Year-to-date returns total \$814 million versus \$290 million in the prior year. Returns by region year to date are as follows:

YTD Returns as a % of Gross Revenue					
Division	N. Amer.	Europe	ICON	Far East	Total
DAD	15%	6%	7%	3%	10%
Consumer	13%	11%	7%	4%	13%
Personal Fin	31%	20%	2%	0%	31%
Personal Sys	33%	26%	14%	2%	37%
Business Sys	4%	5%	10%	5%	9%
Developer	6%	4%	10%	4%	9%
Total	13%	12%	9%	3%	12%

- For internal management reporting purposes, revenue from Desktop 95 products (primarily Windows 95 and Office 95) is recognized only when product is sold through the distribution channel. As shown below, sales through the distribution channel total \$1.23 billion year to date, with an estimated \$363 million remaining as channel inventory. Channel inventory is down from \$643 million at the end of Q96-2.

(in millions)	FYTD96		Channel Reserve	Sell through	
	Sell-in	Returns		\$	%
Windows 95 & MS Plus					
N. America	\$ 643	\$ (257)	\$ (95)	\$ 290	45%
Europe	351	(107)	(45)	199	57%
ICON	92	(15)	(15)	62	68%
Far East	109	(2)	(22)	87	85%
	\$ 1,195	\$ (382)	\$ (175)	\$ 636	53%
Office 95 & Office Pro 95					
N. America	469	(178)	(107)	184	39%
Europe	322	(40)	(36)	245	77%
ICON	75	(9)	(10)	56	74%
Far East	146	(1)	(36)	109	75%
	1,011	(228)	(168)	596	59%
Total	\$ 2,206	\$ (610)	\$ (363)	\$ 1,233	56%

* as a percent of shipments

- Q96-3 Desktop 95 sell-through was estimated to be \$388 million, compared to \$436 million in Q96-1 and \$409 million in Q96-2. The majority of remaining channel inventory is expected to be sold through or returned in Q96-4.
- As the following table illustrates, sales to the top fifteen customers made up 53% of total Q96-3 revenues.

(in millions)	Q96-3		Q96-2		Q96-1	
Ingram	\$159	11%	\$125	9%	\$752	31%
Merisel	117	8%	96	7%	476	19%
Stream	90	6%	77	5%	60	2%
Computer 2000	71	5%	122	8%	129	5%
Soft Bank	60	4%	73	5%	31	1%
Software Spectrum	37	3%	43	3%	34	1%
Digital Equipment	32	2%	15	1%	11	0%
Tech Data	29	2%	63	4%	82	3%
Tech Pacific	26	2%	24	2%	53	2%
Egghead	25	2%	6	0%	125	5%
Fujitsu	21	1%	18	1%	20	1%
Softmart	20	1%	18	1%	16	1%
Software Japan	20	1%	21	1%	11	0%
Olivetti	19	1%	28	2%	35	2%
EDS	18	1%	8	1%	6	0%
All Other	653	47%	630	48%	672	28%
Total	\$1,335	100%	\$1,414	100%	\$2,962	100%

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- Significant declines in sales to Ingram and Merisel reflect Desktop 95 returns processed during Q96-3 and Q96-2. In addition, Tech Data and Egghead show significant quarterly fluctuations also related to the timing of returns.
- Notable increases in sales to Digital Equipment and EDS reflect success in building our enterprise sales channel.
- In late March, Software Spectrum announced the acquisition of Egghead's corporate, government, and education (CGE) division. Egghead will concentrate on their core retail outlets, while Software Spectrum will focus on sales to businesses and organizations.
- Gross margin from finished goods during Q96-3 was 84% versus plan of 83%. The positive variance was due to the benefit of lower product costs due to a shift in mix to license programs and CD-ROM was offset by inventory charges for Desktop 95 products.
- Controllable expenses were 9% below plan due primarily to lower marketing expenditures and lower than plan headcount. Marketing ended Q96-3 \$87 million under plan and actual headcount was 9,462 versus plan of 10,412.
- Year-to-date people and infrastructure costs grew 22% and 15%, respectively, over the prior year, well below net revenue growth of 49%.
- Marketing expenses totaled \$139 million during Q96-3, 85% of plan, while year-to-date marketing expenses have grown 53% over last year. As a percent of net revenue, marketing spend is 11% year to date versus plan of 13%.
- Net PSS expenses were \$9 million under plan during Q96-3 as support costs declined for the fifth consecutive month. As a percent of net finished goods revenue, year-to-date PSS expenses were 9% versus plan of 10%.

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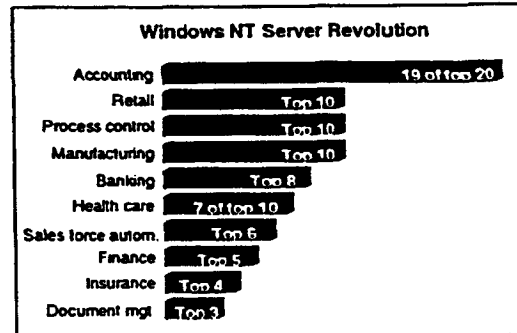
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NORTH AMERICA FINISHED GOODS REVIEW

Region Highlights

- The North American sales organization is increasing its focus on the Enterprise customer with the recent announcement of a new executive position and the integration of Enterprise Services. Bob McDowell will fill the newly created position of Vice President, Enterprise Business Relationships. His focus will be on evangelizing Microsoft's enterprise strategy, products and services that meet our customers' information technology needs. Deborah Willingham was named VP, Enterprise Customer Unit. Along with Deborah's move to ECU, Microsoft is integrating BSD and Premier support and MCS Operations into the ECU.
- The End User Customer Unit (EUCU) is responsible for sales and marketing activities directed to Retail and Direct Marketing resellers. These channel partners target households and small office/home office customers. The EUCU was recently reorganized around segment teams formed to better focus efforts on similar customer sets. In addition, inventory management, merchandising, and product launch management processes have been reengineered around these segment teams. Additionally, increased communication with product groups has been fostered to better facilitate delivery of product and marketing ideas to resellers in a more predictable and reliable manner.
- Industry Sales & Marketing, which embodies the Company's investment in vertical and horizontal markets, has had great success in building a network of Microsoft Solution Developers who support our BackOffice platform. The following chart shows the number of top vendors in each significant vertical market that are shipping products on Windows NT Server.



- In addition, we have encompassed the Internet in many of our value propositions, particularly to retail banks and retailers. Major announcements by Bill Gates to 5,000 bankers and suppliers of Walmart marked two specific events which were widely and favorably reported on in the vertical trade publications.
- Net finished goods revenue in North America totaled \$607 million during the quarter, exceeding plan by \$38 million or 7%. Desktop 95 product sell through and strong sales of Business Systems Division products drove the variance. Net revenue during Q96-3 grew over Q95-3 consistent with the year-to-date growth of 42%.

Net Revenue (Millions)	Year to Date		Prior Actual	Yr/Yr Growth
	Actual	Plan		
United States	\$ 1,812.8	\$ 1,903.4	\$ 1,269.1	43%
Canada	148.0	158.6	114.3	29%
NA Total	\$ 1,960.8	\$ 2,062.0	\$ 1,383.4	42%

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AUTHOR: PETE PRICE (PPRICE)

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- Desktop 95 packaged product inventory remaining in the North American channel totaled \$202 million as of March 31, 1996. Returns were \$123 million and sell-through was \$128 million during Q96-3. This inventory represents between four and five months of supply based on estimated sell-through rates going forward. For the year, approximately 43% of Desktop 95 product sold into the channel has sold through, 40% has been returned and 17% remains in the channel.
- Gross revenue from Desktop Applications Division (DAD) products, principally Office and Office Pro, totaled \$343 million for Q96-3, exceeding plan by \$52 million or 18% even though returns amounted to \$67 million. This strong performance was mainly due to Select, Special Agreements and New Maintenance revenue exceeding plan by \$110 million. Sales of 16-bit products have remained strong as packaged product sales of Office, Office Pro, Word and Excel exceeded plan by \$29 million or 58% during the quarter and \$72 million or 42% year to date. Macintosh products continue to perform poorly against plan with revenue and licenses \$12 million (38%) and 17,000 (11%), respectively, under plan for the quarter. This was mainly due to slower than expected revenue for Mac Office even though license volume exceeded plan by 7% due to license mix shifts to lower priced Select and Maintenance. DAD revenue increased 16% over Q95-3. Year-to-date revenue grew \$282 million or 30% compared to the same period in FY95.
- Gross revenue from Personal Operating Systems division products was a negative \$4 million during Q96-3 mainly due to \$66 million in Windows 95 and MS Plus! returns. Year-to-date revenue from PSD products totaled \$525 million or 98% of plan. MS DOS and Windows 3.x sales volume continued strong and exceeded plan by \$36 million for Q96-3, \$117 million year to date. A substantial portion of this variance was Windows 3.x New Maintenance. New Maintenance amounted to \$22 million (452,000 licenses) for the quarter and \$74 million (1,514,000 licenses) year to date.
- Gross revenue from Consumer products totaled \$55 million for the quarter, 44% below plan with substantially all product categories under plan. The New Business or "Titles" category was 54% under plan during Q96-3 and 38% under plan year to date with lower than expected sales of key products such as Fury3, Encarta, Bookshelf, Bob, Cinemania, and Golf. Established Business and Hardware categories were 36% and 37%, respectively, under plan for the quarter but only 5% under plan year to date. Compared to last year, total Consumer product revenue is flat for the quarter and year-to-date revenue grew \$27 million or 12%. Year-to-date hardware revenue grew \$26 million or 28%, while software revenue increased only slightly.
- Gross revenue from BSD products totaled \$110 million during the quarter, 91% ahead of plan due to strong sales of Windows, NT (Workstation, Servers and Client licenses), the BackOffice bundle products and courseware. Improvements in overall client/server ratios (compared to both budget and prior year) also contributed to the positive variance versus plan. BSD revenue year to date exceeded plan by \$139 million or 92%. BSD revenue during Q96-3 grew 188% compared to the same quarter last year and \$169 million or 137% compared to prior year.
- Gross profit margin during Q96-3 was 84% of net revenue compared to plan of 82% due to lower standard product costs from higher than planned mix of CD versus disk product. This was offset partially by charges for excess Consumer inventory.
- Controllable expenses were under plan in all significant categories during Q96-3. People expenses were less than plan reflecting lower than planned headcount and outsourcing costs.
- Q96-3 net marketing expense of \$74 million was \$17 million (19%) less than plan. On an actual plus committed basis, marketing totaled \$292 million or 72% of the full year budget. Q96-3 Broad Reach costs totaled \$12 million or 2% of net revenue and were less than plan by \$17 million.
- Q96-3 net PSS costs totaled \$62 million or 10% of net revenue, 3% lower than plan.

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EUROPE FINISHED GOODS REVIEW

Region Highlights

- Gross revenue totaled \$466 million for Q96-3, 14% below plan mainly due to lower than expected sales of Windows 95 and Consumer products. Select and other license sales increased 55% over the prior year.

Net Revenue (Millions)	Year to Date		Prior Actual	Yr/Yr Growth
	Act	Plan		
Germany	\$ 404.2	\$ 365.4	\$ 252.1	60%
England	310.8	316.0	234.7	32%
France	241.2	254.5	194.2	24%
Italy	123.6	100.0	75.6	64%
Benelux	121.3	105.4	79.4	53%
Switzerland	100.3	90.2	61.8	62%
Sweden	84.1	85.6	69.5	21%
East. Europe	74.5	54.7	41.6	79%
Spain	43.9	36.1	23.9	84%
Denmark	40.1	39.1	24.9	61%
Norway	35.0	36.2	26.5	32%
Austria	33.1	31.5	22.7	46%
Finland	29.6	23.7	18.2	63%
Portugal	20.1	15.8	11.3	77%
Europe Total	\$ 1,661.8	\$ 1,554.1	\$ 1,136.2	46%

- Gross revenue from Desktop Applications Division products totaled \$376 million in Q96-3, 9% over plan and 14% over the prior year. The Southern Region, Nordic Region and the United Kingdom (12%) were the largest contributors to this growth with France being the only region showing a modest decline. Office 95 sell through increased from \$66 million in Q96-1 and \$63 million in Q96-2 to \$117 million in Q96-3 with the highest year-to-date sell through in Germany (\$58 million), followed by France (\$41 million), Southern Europe (\$31 million), and the United Kingdom (\$26 million).
- Gross revenue from Consumer Division products totaled \$28 million during Q96-3, 26% below plan due to higher than plan returns in France and in the Nordic Region.
- Even though the US dollar strengthened against most major European currencies in the quarter, it was weaker than the budgeted rate and thus resulted in a 4% positive variance on revenue

compared to budget for the quarter. On a year-to-date basis, the exchange help on net revenues, compared to budget, was about 5%.

- Gross revenue from Personal Systems Division products was negative \$30 million for Q96-3 mainly due to \$63 million in returns of Windows 95 and MS Plus!. The Central Region (\$22 million), the United Kingdom (\$11 million) and France (\$11 million) had the highest returns. Windows 95 sell through significantly decreased from \$122 million in Q96-1 and \$56 million in Q96-2 to \$20 million in Q96-3. On a year-to-date basis, Windows 95 sell through was highest in Germany (\$47 million) followed by the United Kingdom (\$27 million), Southern Region (\$25 million) and the Nordic Region (\$22 million).
- Gross revenue from Business Systems Division products totaled \$76 million during Q96-3, 49% over plan. Strong sales of Windows NT Workstations and Servers, especially in the Central Region and in the Nordic countries, drove the positive results. Revenue in the quarter grew by \$50 million (186%) over Q95-3.
- Gross revenue from Developer Division products totaled \$29 million in Q96-3, a 78% increase as compared to Q95-3, and 25% over plan mainly due to strong sales of Visual Basic and MSDN.
- European Desktop 95 channel inventory totaled \$81 million at quarter-end, a \$116 million decrease from Q96-2 as a result of strong sell through of Office 95 and large returns of Windows 95. Based upon average February/March sell through rates, inventory in the channel represents approximately nine months of Windows 95 sell through and one month of Office 95.
- Cost of revenue as a percent of net revenue during Q96-3 was 13%, one percentage point better than plan. Higher than planned CD-ROM mix and a more favorable license mix offset by higher than planned returns and fulfillment costs were the main drivers of this positive variance.

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AUTHOR: CLAUDE CHANGARNIER (CLAUDEC)

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- Controllable expenses were slightly below plan for Q96-3 with people costs at 4% over plan due to higher than expected outsourcing and temporary expenses.
- Net PSS costs were 6% of net finished goods revenue compared to plan of 7% due to lower average headcount and reduced usage of outsourcing resources.
- On a year-to-date basis, contribution margin for Europe totaled 42% of net revenue, well ahead of plan of 35%. Factors contributing to this variance include above plan revenues, savings on product costs from the shift in mix toward more CD-ROM and licensing, and below plan marketing spend, PSS costs, and Corporate allocations.
- New subsidiaries will be opened in Croatia and Romania during FY97.

ICON FINISHED GOODS REVIEW

Region Highlights

- Anti-piracy efforts in Southeast Asia are beginning to pay dividends as evidenced by Thailand's strong performance versus plan and considerable growth over FY95. Anti-piracy legislation is being introduced in many areas of the world as countries attempt to comply with regulations required by GATT. Publicity surrounding anti-piracy regulations and associated marketing efforts by companies to promote the concept of intellectual property rights are the first step in implementation.
- The Indian government approved the formation of a wholly owned Microsoft subsidiary in January. This will allow Microsoft to extend local services to include revenue generating MCS and PSS business, as well as facilitating the opening of several branch offices including Bombay, Calcutta and Bangalore. Despite this, Indian revenues have been disappointing in Q96-3. The government has announced elections to take place in May and the possibility of an administration less open to contact with the West has dramatically slowed investment and government spending.
- The Egyptian government approved the opening of a subsidiary in Cairo. This, together with the extension of agent facilities and headcount in Saudi Arabia, are the initial stages of a reorganization of resources in the Middle East region to capitalize on the market opportunities inherent in this large and developing market-place.
- Work began in the quarter to develop a presence in sub-Saharan Africa. Offices in Nairobi, Kenya and Abidjan, Ivory Coast should be open during Q97-1.
- The transition of product supply for Greece, Turkey, and Morocco from Redmond to EOC was completed successfully resulting in reduced product supply times and increased responsiveness to customers needs.
- For the quarter, ICON gross revenue totaled \$123 million, 8% below plan and 29% ahead of last year. Year-to-date revenue totals \$398 million, 2% below plan and growing 37% over last year. Net revenue by major location is as follows:

Net Revenue (Millions)	Year to Date		Prior Actual	Yr/Yr Growth
	Act	Plan		
Australia	\$ 108.1	\$ 121.0	\$ 79.7	36%
Brazil	43.8	72.7	49.1	(11%)
South Africa	33.7	30.5	22.5	50%
Mexico	28.6	20.3	28.8	(1%)
Singapore	21.4	18.2	10.7	100%
New Zealand	21.3	21.8	14.5	47%
Colombia	14.8	15.7	9.9	49%
Argentina	13.7	11.3	11.1	23%
Thailand	13.0	8.6	4.6	184%
Middle East	12.2	11.5	9.9	23%
Malaysia	11.3	8.8	5.3	112%
Israel	10.0	9.0	8.0	25%
India	9.9	10.2	6.7	49%
Caribbean	9.1	8.3	5.4	70%
Chile	8.6	9.6	5.7	50%
All Others	37.9	28.2	19.2	98%
ICON Total	\$ 397.7	\$ 405.7	\$ 291.0	37%

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58 - MICROSOFT CONFIDENTIAL

AUTHOR: JOHN MACLELLAN (JOHN MAC)

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- The channel in Brazil continued to weaken after the collapse of Compucenter in November. Solaris, Microsoft's largest distributor in the country, is experiencing severe financial problems and is in negotiation with creditors to restructure the company. The subsidiary's below plan performance reflects these channel issues and the general impact of last year's unusual economic growth throughout the Brazilian economy which has been difficult to sustain.
- Australian revenue is below plan year to date and in Q96-3. The newly elected Australian government revalued national debt, leading to a program of government expenditure controls which have adversely affected the private sector. The subsidiary is forecasting partial recovery in Q96-4.
- Revenue from DAD and POS products continue to be impacted by higher than anticipated Q96-1 sell-in. Despite this, sell-in of 16-bit applications and platforms is well above plan. ICON retains \$25 million of Desktop 95 revenue reserves. Sell-through trends have recovered through Q96-3 and a significant portion of this revenue should be sold through before year end.
- Revenue from Business Systems Division products continues to be very strong, 53% ahead of plan for Q96-3 and 28% ahead of plan year to date, primarily on sales of Windows NT.
- Revenue from license sales accounted for 46% of ICON's product mix year to date. This is significantly ahead of plan, and has positively impacted the region's gross margin. This gain has been somewhat offset by the need to downsize packaged product capacity and the associated costs.
- Year-to-date gross margin fell behind plan for the first time this year. The region has taken reserves totaling \$15 million for anticipated Q96-4 product returns and Microsoft owned inventories of Desktop 95 products. This accounts for 4% of the region's responsibility margin.
- The region has begun to implement cost controls to sustain responsibility margin in light of the shortfall in revenue. Savings of \$7 million have been achieved, the most significant being savings in marketing totaling \$4 million.

FAR EAST FINISHED GOODS REVIEW

Region Highlights

- Momentum from the Japanese, Hangeul, and Traditional Chinese language versions of Windows 95 and Office 95 launched during Q96-2 contributed to continued strong sales across the region in Q96-3. The Japanese version of Office Pro 95 with Access 7.0 was shipped to distributors and resellers in March.
- Simplified Chinese versions of Windows 95 and Office 95 were launched in the PRC in March, resulting in gross sales of \$389,000 and \$263,000, respectively.
- Local language versions of Windows NT 3.51 and SQL Server 6.0 were shipped in Q96-3. Gross FG revenue from BSD products was \$49 million in Q96-3, 72% over plan.
- PC sales in Japan soared during CY1995 driven by lower prices of PC's and software, and easier to use systems. In October 1995, Dataquest released revised estimates indicating that PC's sales in Japan increased to 5.3 million, 58% growth over 1994.
- Microsoft has a majority market share in Japan for office suites with Lotus Office and Ichitaro Office for Windows as the second and third leading suite products. MS Excel is the leading spreadsheet, but faces competition from Sanshiro for Windows and Lotus 1-2-3 for Windows. Ichitaro for Windows is the leading word processing program.

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AUTHOR: MARK NICKERSON (MARKNI)

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- Microsoft's strategy in Japan is to aggressively pursue bundling of 32-bit Excel and Word with all OEMs. At present, approximately one-half of all PCs shipped in Japan are bundled with some word processing or spreadsheet software and this percentage is expected to increase in FY97.
- The US dollar continues to strengthen relative to the Japanese Yen going from an average of 101 yen in Q96-2 to 104 yen per US dollar in Q96-3. With the budget rate at 90 yen per dollar, gross revenue was \$15 million below plan mainly due to a \$41 million foreign exchange variance in Japan.
- Microsoft's application to establish a wholly-owned subsidiary in China was approved by the Chinese government in Q96-2. Microsoft has engaged a Chinese company to manufacture Simplified Chinese language products in Shanghai, is installing a financial accounting and billing system in Beijing, and is opening sales and marketing offices in both Shanghai and Guangzhou.

Net Revenue (Millions)	Year to Date		Prior Actual	Yr/Yr Growth
	Act	Plan		
Japan	\$ 574.9	\$ 421.6	\$ 284.4	102%
Korea	34.2	31.0	22.5	52%
Hong Kong	26.5	19.1	15.4	72%
Taiwan	19.9	20.5	17.0	17%
China	4.8	5.1	2.3	114%
FE Total	\$ 660.3	\$ 497.2	\$ 341.5	93%

- With the launch of localized versions of Desktop 95 products, Q96-3 gross FG revenue for the region was \$294 million 5% below plan. Q96-3 net FG revenue of \$285 million was 4% below plan and 107% above Q95-3. Year-to-date net FG revenue was \$660 million, 33% above plan and 93% over the prior year.
- Net FG revenue reflects a reserve of \$56 million for Desktop 95 inventory remaining in the channel at quarter-end. Subsidiaries in the Far East took a conservative approach with respect to the initial orders for the Desktop 95 launches, with the objective of no excess inventory in the channel. At present, product returns are expected to be at normal levels.

- Q96-3 Windows 95 revenue of \$10 million represented 4% of the gross FG revenue for the region. Gross FG revenue from Desktop products was \$161 million, 17% below plan for the quarter.
- Consumer products revenue for Q96-3 of \$10 million was 28% over plan mainly due to strong sales of hardware and Works, partly offset by a shortfall in Kids products.
- Developer revenue was \$42 million, \$7 million under plan due principally to lower sales of C++.
- In spite of high software piracy, net revenue in China during Q96-3 totaled \$2 million (89% of plan), an increase of 37% over Q96-2.
- Gross FG revenue in Taiwan decreased in Q96-3 to \$7 million and was 30% below plan as a result of the uncertain economy caused by elections and nearby military exercises conducted by the PRC.
- Cost of revenue for Q96-3 was 12% of net revenue versus plan of 19%. This variance resulted from a shift in media mix to CDs and an increase in Select and MLP/MOLP licenses as a percent of revenue.
- People expenses were \$1 million below plan in Q96-3 primarily due to delays in hiring. PSS costs were \$3 million below plan because of delays in hiring, particularly support engineers for Business Systems products. MCS costs were \$1 million below plan as a result of delays in hiring consultants.
- Net marketing expenses were \$3 million below plan as a result of lower spending for advertising, marketing materials and other marketing funds in Japan.
- Contribution margin for Q96-3 was \$171 million (60% of net revenue) versus a plan of \$149 million (50% of net revenue). This variance is due principally to the savings relative to plan of \$22 million in cost of revenue.

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OEM REVIEW

(\$ in millions)	Q96-3		FYTD96	
	Actual	% plan	Actual	% plan
Gross Revenue	\$732.5	131%	\$1,966.9	136%
Revenue Adjustments	(5.3)	nm	(59.4)	nm
Net Revenue	727.2	130%	1,907.6	132%
Cost of Revenue	32.2	102%	93.1	115%
Gross Margin	695.0	132%	1,814.4	133%
% of Net Revenue	96%		95%	
Controllable Expenses				
People	7.4	95%	21.3	92%
Infrastructure	1.7	93%	4.8	82%
Other Misc Expenses	17.5	99%	54.5	119%
Marketing	4.2	86%	9.0	61%
Marketing Recovery	(0.3)	nm	(0.2)	nm
Direct Expenses	30.4	95%	89.4	101%
Distributions:				
G&A Costs	0.6	71%	2.2	81%
Net PSS	2.9	95%	9.4	103%
Distributions	3.5	90%	11.6	98%
Total Controllable Expenses	34.0	94%	101.0	100%
Responsibility Margin	661.0	135%	1,713.5	135%
% of Net Revenue	91%		90%	
Shared Resources	0.1	49%	0.3	59%
Corporate Allocations	118.0	105%	317.7	96%
Contribution Margin	\$542.9	144%	\$1,395.5	149%
% of Net Revenue	75%		73%	
<u>Dollar per head, annualized in thousands</u>				
Average Headcount	232	90%	226	89%
Net Revenue per Employee	\$12,537	146%	\$11,254	148%
People and Infrastructure cost per head	\$156	106%	\$154	103%

Business Highlights

- The OEM channel had a record quarter with net revenue totaling \$727 million. Year-to-date gross revenue of \$1.97 billion exceeds full year plan and puts the channel on track for \$2.7 billion in full year revenue. These results are due to PC unit growth, faster conversion to Windows 95 than budgeted, increase in sales to Small Systems Builders (SSBs), and higher revenue per PC.
- Authorized Replicator reports for Q96-3 showed a 73% -27% mix of Windows 95 to MS DOS. An estimated 18 million units of Windows 95 have been sold through the OEM channel to end users.
- Shipments by Microsoft's authorized replicators decreased from the prior quarter, indicating inventory build-up and a temporary slowing of PC market growth.
- Buoyed by Hangeul and Kanji Windows 95 shipments, as well as high PC unit growth, revenue for Japan and Korea exceeded plan by 96%.
- Cost of revenue includes a \$1 million reserve related to potential Certificate of Authenticity (COA) obsolescence due to a change in suppliers. At quarter-end, reserves for obsolete keyboard inventory was \$5 million compared to \$7 million in Q96-2.

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AUTHOR: NELL MILLER (NELLM)

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Significant Customers

	Q96-3			YTD			Growth from FYTD95-3
	Actual	Plan	Variance	Actual	Plan	Variance	
Top 10 Multi-Nationals							
Gateway 2000	\$ 57.2	\$ 27.5	\$ 29.7	\$ 119.9	\$ 94.4	\$ 25.5	67.2%
Compaq	55.4	61.2	(5.8)	140.9	152.6	(11.7)	18.9
IBM	41.7	21.1	20.6	123.9	60.6	63.3	151.8
Dell	37.2	21.9	15.3	95.6	52.2	43.4	142.0
Fujitsu	30.0	2.9	27.1	49.8	5.2	44.6	2163.6
Packard Bell	30.0	36.9	(6.9)	84.1	84.1	-	60.8
NEC	28.9	20.4	8.5	106.2	51.3	54.9	250.5
Hewlett Packard	28.8	20.8	8.0	72.9	47.8	25.1	99.2
Toshiba	21.7	18.4	3.3	61.4	42.4	19.0	43.5
Overetti	16.5	9.7	6.8	29.6	22.7	6.9	35.2
Other Multi-Nationals	101.6	95.1	6.5	337.7	265.7	72.0	64.5
Total Multi-Nationals	449.0	335.9	113.1	1,222.0	879.0	343.0	82.3
Small System Builders	93.8	60.9	32.9	228.1	153.3	74.8	77.6
Named Accounts	189.7	91.0	98.7	516.8	416.8	100.0	41.2
Gross Revenue	732.5	557.3	175.2	1,966.9	1,449.1	517.8	68.9
Revenue Adjustments	(5.3)	-	(5.3)	(59.4)	-	(59.4)	NA
Net Revenue	\$ 727.2	\$ 557.3	\$ 169.9	\$ 1,907.5	\$ 1,449.1	\$ 458.4	61.0%

- Gateway, Dell, and Hewlett Packard had a strong quarter, while Packard Bell and Compaq slowed slightly. Compaq's performance at 91% of plan resulted from slower than expected growth, particularly in the notebook area.
- Multinational PC companies continued to gain market share worldwide, generally at the expense of local middle-tier companies. Compaq, Dell, and Gateway 2000 each have established a significant presence in Europe and the Far East.
- In conjunction with the introduction of new PC models, Compaq, IBM, and Acer all announced substantial price cuts.
- Fujitsu's \$30 million revenue included \$17 million for Kanji Windows 95 sales. Both Fujitsu and NEC have benefited from the strong Japanese PC market, and have picked up market share in the last year.
- Delivery Service Partner (DSP) channel revenue of \$94 million demonstrates continued strong growth in this distribution channel.
- An audit of IPC revealed significant under reporting and lack of internal controls. Negotiations over audit findings continue with Escorn and have begun with IPC. Auditors are currently at Acer and anticipate starting fieldwork at Compaq and AST during Q96-4.

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AUTHOR: NELL MILLER (NELL.M)

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ADVANCED TECHNOLOGY REVIEW

P&L Summary

(in millions)	Q96-3						FY1996					
	Softimage		Other A1		Total WW/A1		Softimage		Other A1		Total WW/A1	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$9.3	93%	\$9.1	91%	\$9.9	99%	\$24.1	93%	\$2.3	0%	\$26.3	94%
Cost of Revenue	0.9	32%	0.0	0%	0.9	32%	4.8	61%	0.0	0%	4.8	61%
Gross Margin	7.9	105%	9.1	91%	9.1	100%	19.3	91%	2.3	0%	21.5	92%
% of Net Revenue	90%		100%		90%		90%		100%		90%	
Controllable Expenses												
People	3.4	119%	2.1	69%	5.5	105%	8.6	96%	5.8	90%	14.4	95%
Infrastructure	0.8	79%	0.4	74%	0.9	77%	1.8	76%	1.1	76%	2.7	76%
Other Misc Expenses	0.9	442%	0.1	36%	0.9	267%	1.2	184%	0.2	44%	1.4	127%
Marketing	2.2	122%	1.1	44%	3.3	77%	5.2	96%	3.0	47%	8.2	71%
Marketing Recovery	(0.8)	nm	0.0	nm	(0.8)	nm	(0.8)	nm	0.0	nm	(0.8)	nm
Brand Reach	0.0	nm	0.0	nm	0.0	nm	0.0	nm	0.0	nm	0.0	nm
Direct Expenses	6.3	112%	3.6	88%	9.9	89%	15.9	90%	10.1	70%	25.9	82%
Distribution:												
MCS Costs	0.1	nm	0.0	nm	0.1	0%	0.3	nm	0.0	nm	0.3	nm
MCS Revenue	0.0	nm	0.0	nm	0.0	0%	(0.2)	nm	0.0	nm	(0.2)	nm
GAA Costs	0.3	144%	0.1	nm	0.4	132%	0.6	78%	0.1	nm	0.7	82%
PSS Costs	0.3	28%	0.2	0%	0.5	26%	0.6	29%	0.9	0%	1.7	43%
Distributions	0.7	54%	0.3	86%	1.0	61%	1.5	41%	1.0	86%	2.5	53%
Total Controllable Expenses	7.6	102%	3.9	87%	10.9	88%	17.4	84%	11.0	71%	28.4	79%
Responsibility Margin	1.8	131%	(3.4)	nm	(2.9)	nm	1.9	nm	(10.9)	nm	(8.9)	nm
% of Net Revenue	11%		nm		(31%)		8%		nm		(37%)	
Shared Resources	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%
Corporate Allocations	7.4	97%	2.8	0%	10.2	92%	20.0	96%	7.7	0%	27.7	92%
Contribution Margin	(6.4)		(6.8)		(13.0)		(18.1)		(18.6)		(30.9)	
% of Prior Year												
Net Revenue	82%		nm		84%		91%		nm		91%	
Gross Margin	238%		nm		243%		133%		nm		136%	
Responsibility Margin	nm		nm		nm		nm		nm		nm	
Contribution Margin	nm		nm		nm		nm		nm		nm	
Dollar per head, annualized in thousands												
Average Headcount	88	83%	99	95%	155	87%	95	82%	80	122%	155	94
Net Revenue per Head	\$167	103%	\$8	nm	\$231	99%	\$338	101%	\$3	nm	\$209	88
People and Infrastructure per Head	\$167	135%	\$168	89%	\$166	114%	\$143	113%	\$154	73%	\$147	97
Marketing Exp % of Net Rev	16%	82%	nm	nm	28%	68%	19%	101%	nm	nm	31%	77

Softimage Highlights

- Softimage net revenue for the quarter was \$9 million versus plan of \$10 million. The shortfall in revenue was primarily due to lower than expected sales of the NT version of 3D product released in late Q96-2. Q96-3 unit shipments were only 53% of forecasted units.
- As part of the recently announced Product Group reorganizations, Softimage now reports into the Internet Platforms and Tools Division. This

reorganization is intended to accelerate development and adoption of new multimedia technologies such as Direct 3D, RenderMorphics, and Talisman.

- Gross margin was favorable due to a conservative royalty expense budget and a significant decrease in hardware sales. Hardware revenues have dropped to 2% of sales, versus 16% in Q96-2 and 23% in Q96-1.

Public Network Sales (formerly AT Sales) Highlights

- ISDN license agreements have been signed with a number of Regional Bell Operating Companies (RBOCs). Southwestern Bell, Bell Canada, Southern New England Telephone, GTE, and MCI have not yet committed. Standard contract terms typically call for prepayments of \$75,000-

\$150,000 and \$30-\$40 access fees for each customer ordering ISDN through the MS Windows 95 ISDN wizard. Service commenced on March 11 with approximately 1,300 orders taken to date.

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AUTHOR: SUSAN NORBERG (SUSANNOR)

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- PNS announced a joint marketing campaign with selected network operators outside the US for a retail channel product, "Internet Starter Kit 1.0" where the Internet Explorer 2.0 is bundled with some programs and utilities to allow consumers to access the Internet. This is a

competitive response to Netscape. In the U.S., Microsoft is including 30 days of free MSN access time with the Internet Starter Kit 1.0.

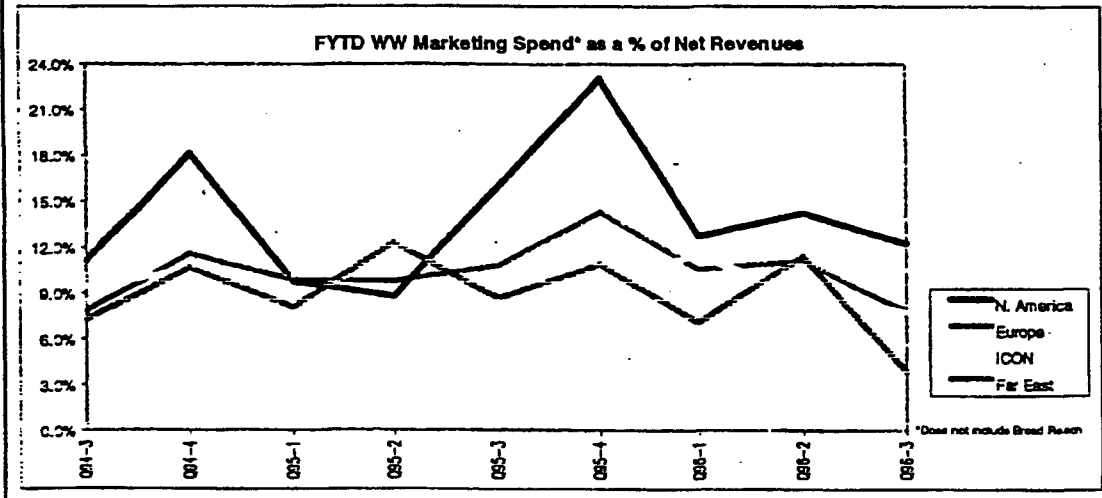
- The first MSN Resale agreement was signed on January 29 with MCI for preferred Internet Explorer and MSN effective May 1.

MARKETING REVIEW

FYTD96 Expenses by Channel

(in thousands)

	Channel									
	Net World	Japan	Latin	Far East	Total WW10	CM	TV	Video	Total	Other
Desktop Applications	\$87.6	\$72.0	\$16.2	\$24.1	\$199.9	\$0.0	(\$1.3)	\$198.7	\$218.9	
Personal Systems	64.2	38.6	10.3	9.7	122.8	9.1	0.0	131.9	129.8	
Connect	45.1	20.7	4.0	4.4	74.2	0.6	0.0	74.8	84.4	
Business Systems	38.3	22.8	5.2	4.9	71.1	0.2	1.3	72.7	106.7	
Developer	16.1	9.4	1.6	3.7	30.9	(0.0)	0.0	30.9	50.0	
On-line	0.1	0.0	0.0	0.0	0.1	0.0	7.6	7.7	8.7	
Consumer Systems	0.0	0.0	0.0	0.0	0.0	0.0	7.3	7.3	11.4	
Personal Finance	5.6	0.1	0.0	0.0	5.8	0.0	0.0	5.8	3.9	
Other	0.0	0.0	0.4	0.0	0.4	(1.2)	7.3	6.5	8.5	
Total	\$256.8	\$163.6	\$37.8	\$46.9	\$505.1	\$8.8	\$72.2	\$534.1	\$672.3	
Act Mix % of Act Rev	13.1%	9.8%	9.5%	7.1%	10.8%	0.5%				
Bud Mix % of Bud Rev	15.0%	11.0%	10.2%	12.0%	12.9%	1.0%				
Broad Reach	70.9	41.7	3.2	12.6	128.4					



- Net worldwide marketing expense for the quarter was \$151 million, a decrease of 28% from Q96-2 and an increase of 7% from Q95-3. The decrease from the previous quarter reflects major product launches and sustaining marketing spend in Q96-2.

- If, as expected, marketing dollars are spent up to plan, Q96-4 spending will be approximately \$250 million.

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MICROSOFT CONSULTING SERVICES REVIEW

Results of Operations

(in millions)	Q96-3			Q95-3		FYTD96		
	Actual	Plan	Var	Actual	% Change	Actual	Plan	Var
Consultant	\$28.8	\$31.3	(\$2.5)	\$18.8	72%	\$76.9	\$80.2	(\$3.3)
Subcontractors	12.7	7.8	5.1	5.8	121%	36.6	22.1	14.5
Net Revenues	41.5	38.9	2.6	22.6	84%	113.5	102.3	11.2
People	24.6	27.0	2.4	14.6	68%	64.3	74.1	9.8
Infrastructure	4.1	5.0	0.9	2.9	45%	11.8	14.2	2.4
Subcontractors	11.8	4.6	(7.0)	5.4	114%	26.8	13.4	(13.2)
Other	0.7	1.0	0.3	(0.2)	nm	2.8	2.6	(0.2)
Expenses	41.0	37.6	(3.4)	22.7	81%	105.5	104.3	(1.2)
Responsibility Margin	0.5	1.3	(0.8)	(0.2)	nm	8.0	(2.0)	10.0
Headquarter Allocations	1.8	1.8	(0.0)	1.3	36%	4.4	5.7	1.4
Contribution Margin	(\$1.3)	(\$0.5)	(\$0.8)	(\$1.5)	nm	\$3.6	(\$7.7)	\$11.3
Average Headcount	886	985	99	575	54%	886	985	99
Consultant Rev/Head	\$130	\$127	\$3	\$112	16%	\$116	\$109	\$7
Consultant Exp/Head	\$133	\$134	\$1	\$120	(11%)	\$119	\$123	\$4
Average Utilization	55%	57%		58%		55%	57%	

Note: (1) Coris (acquired in FY96) has been included in Q96-3 and FYTD96. Q95-3 has not been restated to include Coris.
(2) Consultant Revenue and Expense per Head does not include any subcontractor revenue or expense.

Business Initiatives

- In March, 1996 the Enterprise Customer Unit was reorganized to provide greater focus on the enterprise. This reorganization integrates BSD and Premier support with MCS operations.
- MCS is planning to open an Eastern Europe regional office in early FY97.

Business Results

- Q96-3 revenue exceeded plan by \$3 million primarily due to increased use of subcontractors. Year-to-date MCS revenue totaled \$114 million, 11% over plan with 68% generated by MCS consultants and 32% from subcontractors.
- Q96-3 consultant revenue was \$3 million below plan primarily due to below plan headcount. The Winter Briefing (a five-day technical training event) held in January contributed to below plan consultant revenue for the quarter.
- Subcontractor revenue was \$5 million above plan for Q96-3, with related subcontractor expenses exceeding plan by \$7 million. MCS utilizes subcontractors to meet demand that can not be fulfilled with existing resources. Year-to-date subcontractor revenue was \$15 million above plan with subcontractor expenses exceeding plan by \$13 million.
- Year-to-date contribution margin was \$4 million compared to a planned loss of \$8 million. North America contributed most significantly to the positive margin with the West region at \$4 million and the Central region at \$3 million.
- World-wide MCS headcount of 886 was 10% below plan. North America (517), Europe (217), ICON (101), Far East (23) and Headquarters (28) were all below plan. Headcount grew 54% over Q95-3.

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AUTHOR: JEANA WALKER (JEANA@W)

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WORLDWIDE PSS

Worldwide Gross PSS Cost and PSS Revenue for Finished Goods Channel

(\$ in millions)	Q96-3						FYTD96					
	Actual			Plan			Actual			Plan		
	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %
NAFG	\$20.8	\$16.2	25%	\$20.0	\$22.1	28%	\$42.3	\$44.5	18%	\$20.3	\$24.4	28%
Europe FG	31.4	7.1	21%	40.1	8.8	22%	105.7	25.1	24%	121.2	26.9	22%
ICON FG	5.3	1.0	20%	6.4	1.3	20%	16.4	3.2	20%	19.6	3.7	19%
Far East FG	14.7	1.7	11%	17.9	3.8	20%	38.9	4.5	11%	48.8	9.4	19%
Total FG	\$132.2	\$26.0	21%	\$154.3	\$38.8	25%	\$407.3	\$77.3	19%	\$451.8	\$113.4	25%

Worldwide Net PSS Cost as a Percentage of Finished Goods Channel Revenue

(\$ in millions)	Q96-3				FYTD96			
	Actual		Plan		Actual		Plan	
	PSS Cost	Cost/Rev	PSS Cost	Cost/Rev	PSS Cost	Cost/Rev	PSS Cost	Cost/Rev
Consumer	\$6.1	10%	\$6.3	8%	\$18.3	8%	\$16.9	6%
Desktop	32.8	3%	37.3	4%	97.0	4%	106.4	4%
POS	38.3	18%	37.5	13%	122.6	13%	114.3	11%
Developer	14.8	13%	16.1	14%	46.1	15%	47.9	17%
BSD	14.2	5%	18.6	11%	48.0	7%	52.9	12%
Total Net Cost	\$106.2	7%	\$115.8	8%	\$330.0	7%	\$338.4	8%

Business Highlights

- Year-to-date net PSS costs for the Finished Goods channel were \$330 million (7% of FG revenue), slightly below \$338 million planned. Gross PSS costs of \$407 million were 10% lower than plan largely due to below plan headcount as support incidents have been below plan. These costs have declined for five consecutive months. The decline is primarily the result of scaling back both variable headcount and outsourcing after the peak in Desktop 95 support demand. PSS revenue for the finished goods channel of \$77 million was 32% below Year-to-date plan primarily due to lower than plan fee-based incidents.
- PSS launched several new services under two distinct brand names: Microsoft AnswerPoint, and Microsoft Service Advantage.
- Microsoft AnswerPoint is the brand name of the Standard and Priority framework as well as Information Services aimed at end users, developers, and small and medium businesses. AnswerPoint includes easy access to technical and support information, no-charge support, and fee-based, round-the-clock support at various levels and prices.
- Microsoft Service Advantage is the brand name for all Microsoft and Partner services for Enterprise customers. These direct services include both consulting and Premier under a single Master Services Agreement which allows customers to combine their chosen mix of consulting and support services under one agreement.
- After eight months of planning and development, PSS implemented Compass, a new customer support tracking and management reporting tool. Compass automates the incident escalation process and provides customers with a view of information related to their support usage. The Compass management notification and alert system enables more efficient management of complex technical issues, improving MS responsiveness and follow-through for customers.
- Microsoft received first place in *Computer Currents* second annual Reader's Choice Awards in the Software Technical Support category. *Computer Currents* is targeted toward end users and small business.
- In April, PSS announced the addition of Nntp newsgroups on the Internet allowing customer-to-customer discussions about Microsoft products, replacing current CompuServe forums. Delivering customer-oriented low-cost information service via the Internet continues to be a key focus for PSS.

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AUTHOR: BRUCE PETERSEN (BRUCEPE)

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GENERAL & ADMINISTRATIVE

(in millions)	Q96-3							
	Actual		Plan		% of Plan	Prior Year		% of PY
ITG	\$58.0	33%	\$56.5	33%	103%	\$47.9	35%	21%
Finance	11.8	7%	12.5	7%	94%	12.0	9%	(2%)
Human Resources	36.8	21%	34.8	20%	106%	25.9	19%	42%
MS Services Group	14.9	8%	16.5	10%	90%	12.2	9%	22%
Real Estate	25.4	14%	24.1	14%	105%	16.7	12%	52%
Legal	23.8	13%	22.3	13%	106%	18.6	13%	28%
Executive and Other	7.1	4%	5.4	3%	131%	5.2	4%	37%
Total G&A	177.8	100%	172.2	100%	103%	138.6	100%	28%
Distributions to								
Domestic Departments	(92.5)	(52%)	(100.1)	(58%)	92%	(70.4)	(51%)	31%
Total	\$85.3	48%	\$72.1	42%	118%	\$68.2	49%	25%
(in millions)	FYTD 96							
	Actual		Plan		% of Plan	Prior Year		% of PY
ITG	\$167.7	34%	\$165.4	33%	101%	\$127.8	33%	31%
Finance	35.8	7%	37.4	7%	96%	33.0	9%	9%
Human Resources	98.2	20%	100.9	20%	97%	73.0	19%	34%
MS Services Group	43.7	9%	49.1	10%	89%	33.3	9%	31%
Real Estate	64.1	13%	70.9	14%	90%	47.9	13%	34%
Legal	61.6	13%	66.9	13%	92%	48.4	13%	27%
Executive and Other	18.8	4%	16.6	3%	113%	18.1	5%	3%
Total G&A	489.9	100%	507.1	100%	97%	381.4	100%	28%
Distributions to								
Domestic Departments	(268.2)	(55%)	(286.3)	(56%)	94%	(200.1)	(52%)	34%
Total	\$221.7	45%	\$220.8	44%	100%	\$181.3	48%	22%

- Total general and administrative costs include functional corporate cost centers that support MS on a worldwide basis such as legal services, corporate finance, IT project development, and certain expenses to support domestic headcount departments such as employee benefits, facilities costs, infrastructure operation, and administrative services.
- For financial reporting, the latter costs are distributed to domestic product, sales, and administrative groups and included in people and infrastructure expenses as general, building and grounds costs. For internal channel and product management reports, net corporate G&A costs are allocated as a portion of corporate allocations.
- ITG costs include application development, regional support, and distributed infrastructure costs. These costs are driven primarily by demand from supported organizations for new technology and tools, support of existing systems, and increased demands on the corporate network.
- Human Resources costs, driven primarily by domestic headcount, include functional support such as recruiting, employee development, payroll, stock administration and distributed employee benefit costs such as health insurance, 401(k) match, and health club dues. These costs are driven primarily by increases in headcount.
- MS Services groups provide administrative support including building services, library services, mail, food and beverage, administrative procurement, travel services, and copy centers. These costs are driven by user demand and are indirectly correlated to headcount growth.
- Real Estate & Construction costs include functional costs related to facilities planning and development, and direct facilities infrastructure costs such as building depreciation, rent, utilities, and maintenance. These costs are driven primarily by growth in domestic headcount, and contingent staff residing on campus.
- Finance, legal, and executive costs are corporate functional groups supporting MS on a worldwide basis.

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AUTHOR: GREG ALDERSON (GREGALD)

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INFORMATION TECHNOLOGY

- ITG allocated costs were \$4 million over plan in Q96-3 primarily due to consulting costs in excess of plan, and approved variances on certain projects like SAP. Infrastructure costs were about \$3 million below plan for the quarter. Year-to-date ITG allocated costs are \$9 million over plan, compared to under plan infrastructure costs of about \$7million.
- During Q96-3, IT application development responsibility and resources were moved to the business units allowing them to directly manage development projects and to assume P&L responsibility for project costs. Financial information is captured to consolidate all business unit IT costs under a "virtual" ITG division for comparability with prior periods.

Major Development Projects

Project	FYTD	Plan	Status
MS Product	\$3,010	\$2,714	Focusing on Release Tools 2.0, testing/beta 4/96
Net SR	1,808	2,831	Beta 2.1 released; version 1.0 complete 6/96
Compass	2,138	1,806	Phase 1 implementation 4/23; working on Europe
MS Manager	2,916	1,770	Completing v3.2; April 96 release
Channel Measurement	3,762	4,061	Step 2 beta on schedule for mid-April
SAP	4,182	2,375	Procurement rolled out; G/L (phase 2) underway
Genesis	3,275	4,950	Supplier dev. completed, turnkey mfg started

- The current phase of MS Product consolidates information for OEM products, MS Press, Marketing parts, Far East products, and MSN into the system. This phase also integrates this system with other systems such as Infobase.
- Net SR provides corporate and home end-users an electronic means for requesting service via MSN. Also includes customer front-end tools for MSN, billing interfaces to MSN and issue router functionality to escalate or transfer issues between sites.
- Compass is a support tool for the Corporate Support and Premier segments of the PSS business replacing the current SR/Man tool. The new system will enhance product support service delivery from a quality and efficiency standpoint for major Microsoft customers.
- MS Manager is a cross-functional application that is distributed across North America, ICON, FE, and Europe. It supports PSS, account management, and direct marketing activities in the subsidiaries in which it is deployed. Manager centralizes a significant portion of customer data in a central data warehouse.
- Channel Measurement is expected to provide an integrated view of worldwide channel data, including purchases, sales, and inventory of Microsoft's channel partners, giving users the ability to analyze the effectiveness of sales and marketing programs, representatives, and channel activity.
- SAP project will implement SAP financial software on NT and SQL Server worldwide to replace the current ROSS, subsidiary MacPac, and Platinum accounting systems with a central corporate general ledger. Additionally, SAP will provide a worldwide, integrated administrative procurement system and fixed asset ledger. Implementation of the domestic procurement system was successfully completed on April 1.
- Genesis is a tool to re-engineer the North American Supply Chain by moving CPC from a "push" model to a "pull" model for replenishment and just-in-time production through better forecasting and coordination of suppliers and distribution channels.

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AUTHOR: GREG ALDERSON (GREGALD)

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REAL ESTATE & CONSTRUCTION

Worldwide Facility Distribution & Capital Spending

(\$ in millions, square feet in thousands)

Location	Facilities Distribution		Q96-3 Capital Spend			FYTD96 Capital Spend			FY96
	Square Feet	Mix	Actual	Plan	Variance	Actual	Plan	Variance	Plan
Puget Sound	4,360	57%	\$44.8	\$61.9	\$17.1	\$159.9	\$253.9	\$94.0	\$293.9
Other Domestic	1,186	16%	7.5	3.8	(3.7)	11.5	15.9	4.4	19.1
International	2,078	27%	11.5	3.7	(7.8)	44.7	33.8	(10.9)	34.7
	<u>7,624</u>	<u>100%</u>	<u>\$63.8</u>	<u>\$69.4</u>	<u>\$5.6</u>	<u>\$216.1</u>	<u>\$303.6</u>	<u>\$87.5</u>	<u>\$347.7</u>

- Worldwide space capacity is now over 7.6 million square feet. Building 27 on the main Campus was occupied in January, adding another 208,000 square feet to the portfolio. In February, the final building at the Redmond West Campus was completed adding over 131,000 square feet to the portfolio.
- Site work for Buildings 30, 31, and 32 on the northeast corner of the Campus was completed during the quarter and a building permit was approved by the City of Redmond. These buildings are expected to be occupied in Q97-3. When completed, the buildings will add 365,000 square feet to the portfolio and capacity for 1,500 people. The total cost of this project is \$116 million, with the majority of the spending to occur in FY97.
- The WPGI buildings in Ireland have been completed and were occupied in February. This project added 80,000 square feet to the portfolio at a total cost of \$19 million. Land use approvals have been obtained for the Thames Valley Park project in the U.K. Site work has started and construction will begin in Q97-1. Additionally, a buyer has been identified for the building currently occupied by MS-LTD.
- Approval was obtained to start construction on the Canyon Park Data Center. This 32,000 leased building will provide server and telephony expansion for ITG. The tenant improvements are expected to begin in Q96-4 with completion during Q97-2. The total cost of this project excluding ITG equipment is \$24 million.

Puget Sound Capital Spending

	YTD Actual	YTD Budget	Variance	FY96 Budget
Committed Projects	\$103.6	\$133.2	\$29.6	\$138.6
Tenant Improvements	26.7	60.6	33.9	70.6
Furniture & Fixtures	11.8	15.2	3.4	15.2
New Construction	8.9	24.5	15.6	46.6
All Other	8.9	20.4	11.5	22.9
Total	\$159.9	\$253.9	\$94.0	\$293.9

- Year-to-date capital spending is below plan primarily due to timing differences between actual and plan. We expect to end the year at approximately \$220 million or \$74 million under plan.
- The FY96 capital budget for the Puget Sound region consists primarily of spending on committed projects (like Redmond West and Building 27), tenant improvements on new sites and existing buildings (like remodeling of buildings 1-6 and the ITG data center) and new construction. New construction represents Campus projects expected to occur through FY98. When completed, these buildings will add over 1.5 million square feet to the existing Campus portfolio. As noted above, site work began on the first set of buildings in Q96-4. If building permits are approved, the remaining projects will start in FY97 subject to executive approval and space needs. Total capital spending on these projects is estimated at \$500 million over the next three years.

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AUTHOR: GREG ALDERSON (GREGALD)

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SUMMARY OF DISTRIBUTED G&A COSTS

(in millions)	Q96-3			FYTD96						
	Actual	Plan	% Plan	Actual	Plan	% Plan				
ITG										
Depreciation	\$9.4	31%	\$11.8	36%	80%	\$26.1	30%	\$32.7	35%	80%
Maintenance & Repairs	2.8	9%	2.3	7%	121%	7.9	9%	7.1	7%	112%
Telecommunications	5.6	18%	6.2	19%	91%	18.3	21%	17.9	19%	103%
Contract & temporary lab	6.3	21%	5.2	16%	120%	18.5	21%	16.2	17%	114%
Payroll & taxes	4.0	13%	4.4	13%	91%	11.0	13%	12.3	13%	90%
Other	2.2	7%	2.9	9%	74%	6.3	7%	8.5	9%	75%
	<u>30.3</u>	<u>100%</u>	<u>32.9</u>	<u>100%</u>	<u>92%</u>	<u>82.2</u>	<u>100%</u>	<u>94.7</u>	<u>100%</u>	<u>93%</u>
Human Resources										
Health benefits	14.5	50%	14.6	56%	99%	39.9	53%	41.9	56%	95%
401 (k) match	4.3	15%	4.4	17%	98%	11.8	16%	12.7	17%	94%
Health clubs	1.6	6%	1.4	5%	120%	4.5	6%	3.9	5%	115%
Other	8.4	29%	5.6	21%	151%	19.2	25%	16.5	22%	116%
	<u>28.9</u>	<u>100%</u>	<u>25.9</u>	<u>100%</u>	<u>111%</u>	<u>75.4</u>	<u>100%</u>	<u>75.0</u>	<u>100%</u>	<u>101%</u>
MS Services Group										
Copy center	2.5	25%	2.8	24%	91%	8.1	27%	8.2	24%	98%
Information/support serv	2.9	29%	2.6	22%	114%	7.7	25%	7.7	22%	100%
Food & beverages	2.4	24%	2.2	19%	110%	7.3	24%	6.4	19%	113%
Mail center	1.6	16%	2.3	20%	71%	5.6	19%	6.8	20%	82%
Media services	1.8	18%	2.1	19%	85%	5.4	18%	5.4	18%	100%
Corporate events/store	(0.8)	(8%)	(0.3)	(3%)	253%	(1.4)	(5%)	0.3	1%	n
Travel services	(0.4)	(4%)	(0.1)	(1%)	nm	(2.5)	(8%)	(0.4)	(1%)	676%
	<u>10.1</u>	<u>100%</u>	<u>11.5</u>	<u>100%</u>	<u>88%</u>	<u>30.1</u>	<u>100%</u>	<u>34.4</u>	<u>100%</u>	<u>87%</u>
Real Estate										
Rent & utilities	7.1	29%	7.5	33%	95%	18.2	30%	21.5	32%	85%
Depreciation	7.8	32%	9.1	40%	86%	20.7	34%	23.8	35%	87%
Maintenance & repairs	2.4	10%	1.7	8%	136%	5.5	9%	5.1	8%	108%
Supplies & equipment	3.5	14%	0.4	2%	825%	5.8	10%	4.8	7%	120%
Other	3.5	15%	4.2	18%	84%	10.2	17%	11.9	18%	86%
	<u>24.2</u>	<u>100%</u>	<u>22.9</u>	<u>100%</u>	<u>106%</u>	<u>60.3</u>	<u>100%</u>	<u>67.1</u>	<u>100%</u>	<u>90%</u>
Other	(1.0)		6.9		nm	14.1		15.1		93%
Total	<u>\$92.5</u>		<u>\$100.1</u>		<u>92%</u>	<u>\$268.2</u>		<u>\$286.3</u>		<u>94%</u>

- Distribution costs are categorized as service costs to the company where the distributing group controls the unit cost and the receiving business unit drives unit consumption. For example, Human Resources manages benefit costs per person, but increases in company headcount drive total benefit costs.
- Distributed ITG infrastructure expenses are under plan Q96-3 and year to date primarily due to a positive variance in depreciation and amortization as a result of actual capitalized purchases lagging plan. Contract labor is over plan in the computer operations and network services group, but is partially offset by lower payroll costs. This is due to a lower than planned contractor conversion to employee rate.
- Distributed HR costs were over plan in Q96-3 and at plan for the year primarily due to product group recruiting costs. Product group hiring has been somewhat higher than anticipated by the recruiting group although per head recruiting costs are at the planned rate.
- Distributed MSG costs are below plan for Q96-3 and FYTD, with food and beverage costs over plan primarily due to unanticipated usage. The negative amounts in corporate events/store and travel represent the impact of company store profits and travel rebates respectively.
- Distributed real estate costs are about 90% of year to date plan primarily due to lower housed headcount than planned, depreciation costs related to lower than planned capital spending, and lease income from Cascade Place not anticipated in the FY96 plan. Additionally, utility costs were lower than plan due to lower than expected headcount and below normal water usage on the sports fields as a result of the Windows 95 launch last August. Supplies and equipment costs are over plan for Q96-3 and year to date due to a ergonomic furniture retrofit program. This cost will continue at an accelerated level in Q96-4.

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Treasury

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COMPARATIVE BALANCE SHEET AND CASH FLOW

Balance Sheet

(in millions)

	Q96-3		Q96-2		Change
Assets					
Current assets:					
Cash and short-term investments	\$6,770	71%	\$6,017	66%	\$753
Accounts receivable - net	681	7	771	8	(90)
Inventories	33	0	108	1	(75)
Other	212	2	207	2	5
Total current assets	7,696	80	7,103	78	593
Property, plant and equipment, net	1,281	13	1,297	14	(16)
Other assets	613	6	706	8	(93)
Total assets	\$9,590	100%	\$9,106	100%	\$484
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	\$ 652	7%	\$ 651	7%	\$ 1
Accrued compensation	142	1	148	2	(6)
Unearned revenue	545	6	495	5	50
Income taxes payable	616	6	680	7	(64)
Other	309	3	267	3	42
Total current liabilities	2,264	24	2,241	25	23
Minority interest	125	1	125	1	0
Put warrants	506	6	560	6	46
Stockholders' equity:					
Common stock and paid-in capital	2,677	29	2,285	26	392
Retained earnings	3,918	41	3,895	43	23
Total stockholders' equity	6,595	70	6,180	69	415
Total liabilities and stockholders' equity	\$9,590	100%	\$9,106	100%	\$484

- Cash and short-term investments totaled \$6.77 billion at quarter end. Almost \$900 million was generated from operations offset by the purchase of \$370 million of Microsoft stock.
- Accounts receivable continued to decline from a peak of \$1.05 billion in Q96-1 reflecting payments and returns on accounts with extended terms related to the Desktop 95 launch.
- Inventories declined during the quarter largely due to additional reserves for obsolete and excess inventories related to returns of Desktop 95 product.
- Decrease in other long-term assets reflects a decline in the market value of Microsoft's investment in UUNet. GAAP requires such investments to be marked to market.
- Unearned revenue totaled \$545 million at March 31, 1996. The unearned revenues include deferred operating system revenue to be recognized for GAAP over related product life cycles, revenue deferred on 16-bit versions of Office pending coupon upgrade to Office 95, and unearned maintenance revenue.

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AUTHOR: DAVE LAYB (DAVEA)

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Cash Flow Summary

(in millions)

	Q96-3	Q96-2	Change
Beginning cash and short-term investments	\$ 6,017	\$ 5,064	\$ 953
Net income	562	575	(13)
Depreciation and amortization	183	78	105
Change in accounts receivable	34	275	(241)
Change in inventories	73	17	56
Change in other assets	(13)	(32)	19
Change in liabilities	54	484	(430)
Cash flow from operations	833	1,397	(504)
Cash provided from exercise of stock options	426	118	308
Cash used for stock buy back	(370)	(373)	3
Cash used for purchase of property and equipment	(123)	(83)	(40)
Cash used for long-term investments	(52)	(105)	53
Effect of exchange rates on cash	(21)	(1)	(20)
Net change in cash and short-term investments	753	953	(200)
Ending cash and short-term investments	\$ 6,770	\$ 6,017	\$ 753

- Increase in depreciation and amortization reflects accelerated depreciation on PCs and write off of certain IPR no longer considered useful.
- Change in liabilities in Q96-2 reflected increase in accrued taxes and unearned revenue.
- During Q96-3, 3.8 million shares of MS stock were purchased for \$370 million.

CAPITAL MARKET ACTIVITIES

Portfolio Management - Family of Funds

	Cash & Money Mkt	Enhanced Money Mkt	Short Term	Intermediate	Opportunity	Total
Portfolio Allocation:						
Q96-2	31%	23%	24%	19%	2%	100%
Q96-3	36%	23%	23%	17%	2%	100%
Balances (in millions):						
Q96-2	1,795	1,331	1,388	1,051	114	5,678
Q96-3	2,351	1,477	1,476	1,097	121	6,521
Total Rate of Return (Pre-tax):						
Q96-2	6.05%	6.89%	11.33%	14.89%	2.83%	9.22%
Q96-3	5.55%	5.72%	4.72%	1.25%	28.16%	4.89%

* Annualized data is provided for illustrative purposes. Past performance is not meant for use as a predictor of future results.

- Allocation of cash balances across the Family of Funds during the quarter was structured to increasingly emphasize the shorter duration funds.
- Total portfolio returns decreased over Q96-2 primarily due to the decrease in portfolio market values associated with an increasing interest rate environment.
- Year to date portfolio income has added \$240 million in value to Microsoft. This represents cash flow income of \$222 million plus tax-related and unrealized changes in market value of \$18 million.

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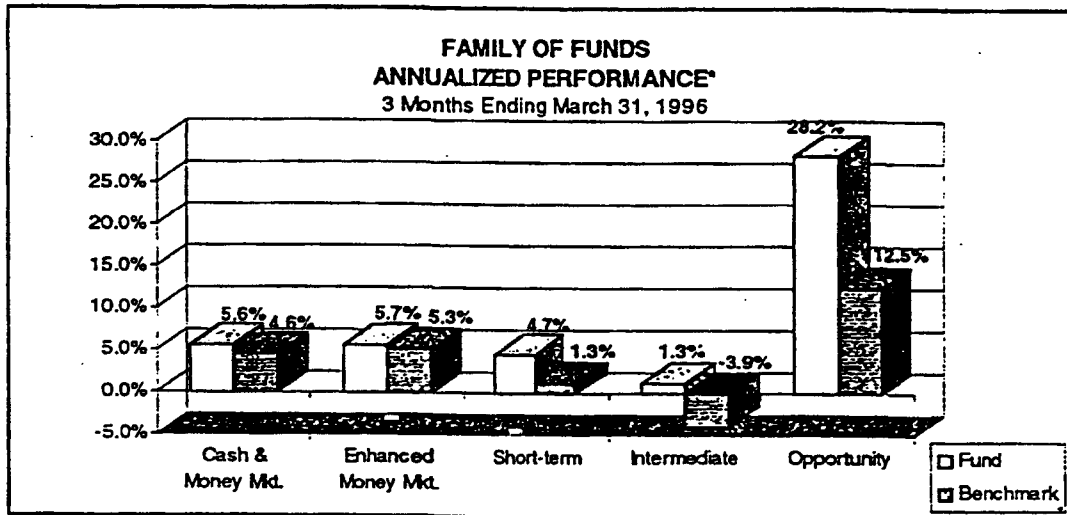
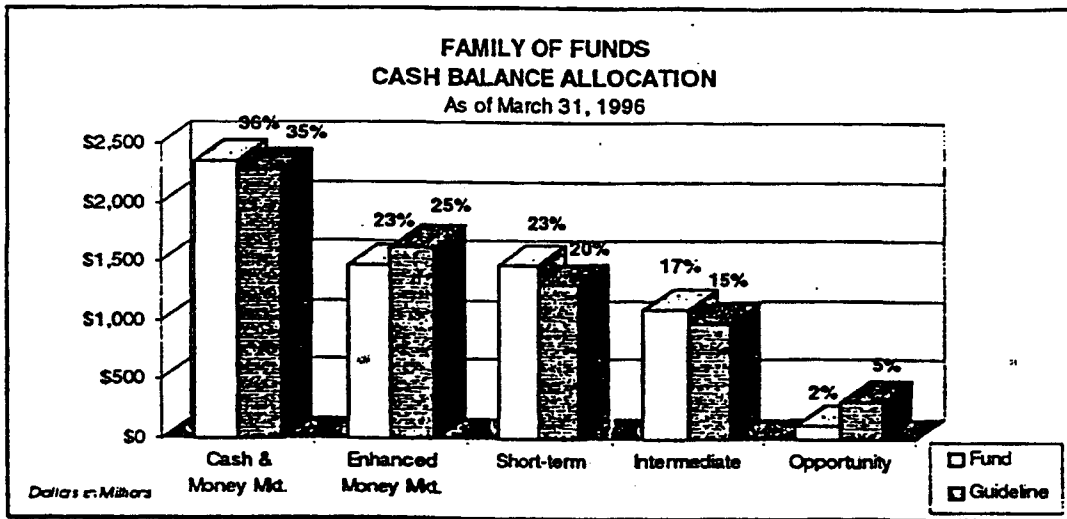
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AUTHOR: CARA LEWIS (CARALEW)

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- Stronger economic data released during Q96-3 led investors to reevaluate expectations of easing by the Federal Reserve and pushed interest rates higher. The most significant new data was a February increase of 624,000 in non-farm payrolls, the largest increase in this employment measure since September, 1983.
- Market interest rates matching the maturities of the MS Family of Funds rose during the quarter. Specifically, three month US Treasury Bill yields rose 10 basis points to 5.2% and five-year US T-Note yields rose 70 basis points to 6.1%.
- Due to the belief that short term interest rates had fully priced in expectations of weak domestic economic data, and continued easing of rates by the Federal Reserve, portfolio durations were positioned at levels below equivalent fund benchmark durations.
- All Family of Funds portfolio returns exceeded their respective benchmarks for the quarter. The Short-term and Intermediate funds, which represent 40% of the total portfolio, outperformed their benchmarks by 339 and 515 basis points, respectively.

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AUTHOR: CARLA LEWIS (CARLALEW)

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- The Strategic Opportunity Portfolio delivered an annualized total return in excess of 28% during the quarter. Although this portfolio has a balance representing only 2% of the total portfolio

balances, the returns on many of the securities are linked to the performance of MS stock, and the stock increased 17.5% during the quarter.

ACCOUNTS RECEIVABLE

Worldwide Accounts Receivable

(in millions)	DSO				Aging Summary				
	Q96-4	Q96-1	Q96-2	Q96-3	Total	Current	1-30	31-60	60+
Finished Goods									
North America	35	60	61	53	\$289	\$238	\$24	\$11	\$16
Europe	49	72	69	59	299	198	58	21	22
Far East	46	56	49	60	197	178	11	6	2
AME	78	85	108	110	25	19	4	1	1
APAC	78	91	180	179	95	72	7	10	6
Latin America	144	132	158	159	77	41	11	4	21
Total Finished Goods	46	69	77	65	982	746	115	53	68
OEM	27	29	26	19	135	85	22	19	9
MSN					3	3	0	0	0
Other					45	7	3	9	26
Total accounts receivable	42	60	61	51	1,165	\$841	\$140	\$61	\$103
Reserves for sales returns					(615)				
Allowance for doubtful accounts					(189)				
Reserves - Other					29				
Earned, unbilled revenues					291				
Accounts receivable-net					\$681				

- Worldwide gross accounts receivables declined to \$1.17 billion from \$1.44 billion at the end of last quarter as additional returns credits for Desktop 95 products were processed and collection efforts were accelerated.
- Europe's accounts receivable balance declined from \$507 million at the end of Q96-2 to \$299 million at the end of Q96-3 as most Desktop 95 invoice and inventory issues were resolved and Select/MOLP collection efforts were increased. At the same time, North America's accounts receivable were further reduced from \$323 million to \$289 million as remaining Desktop 95 credits were processed.
- Worldwide DSO improved during the quarter from 61 to 51 days. Major improvements were experienced in North America, Europe, and OEM, as extended credit terms related to the Desktop 95 launch expired. DSO in the Far East increased to 60 days due to extension of Desktop 95 terms.
- Select and MOLP accounts receivables increased from \$270 million to \$302 million for the quarter. Only 42.0% is current due to continued billing problems and pricing disputes. Just over 50% of worldwide Select/MOLP receivables are in Europe.
- Reserves for sales returns were decreased from \$987 million to \$615 million during the quarter as remaining receivable balances related to sell-in of Desktop 95 were reduced through payments and return credits.
- Brazil continues to suffer significant problems due to a financially weak distributor base. Two major distributors, Brasoft and Compucenter, declared bankruptcy during Q96-3. Of those distributors remaining, there are no candidates financially sound enough to replace Brasoft and Compucenter, so efforts are being expanded to attract one or more multi-national distributors into the market place.

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Accounts Receivable of the Ten Largest Customers Worldwide

(in millions)

	Total		Aging Summary			
	Balance	Percent	Current	1-30	31-60	Over 60
Ingram Micro	\$140	12%	\$127	\$5	\$5	\$3
Merisel	76	7%	73	1	0	2
Tech Pacific	60	5%	49	3	5	3
GT Interactive Software	39	3%	39	0	0	0
Computer 2000	35	3%	28	5	1	1
Stream International	32	3%	24	5	1	2
Fujitsu	30	3%	30	0	0	0
Packard Bell	29	2%	3	9	15	2
Olivetti	24	2%	10	5	7	2
Soft Bank	23	2%	22	1	0	0
Total ten largest	488	42%	405	34	34	15
Other	677	58%	436	106	47	88
Total Q96-3	\$1,165	100%	\$841	\$140	\$81	\$103
Total Q96-2	\$1,439		\$1,043	\$259	\$60	\$77
Aging mix of top ten			83%	7%	7%	3%
Aging mix of total			72%	12%	7%	9%
Q96-2 Aging mix of total			73%	18%	4%	5%

- Total accounts receivable for the top ten worldwide customers accounted for 42% of the total at March 31, 1996, down from 45% at the end of Q96-2. This reflects reductions in receivables primarily from Ingram, Merisel and Computer 2000 due to payments and returns credits related to Desktop 95.
- Among major customers, Packard Bell presently owes MS a total of \$29 million at the end of Q96-3, of which \$26 million was due as of March 31, 1996. Payments of \$30.1 million were received during the quarter.
- Merisel reported a loss of \$84 million for CY95, putting them in non-compliance with their bank covenants. They have secured approval from their banks and bondholders to amend the agreements in order to continue operations through the end of 1996. They remain a very high risk to Microsoft because of their limited access to operating funds.
- Good Times Interactive Software which distributes product to Walmart and Target stores continues to represent an unusual credit risk. Under special terms, payments are only made on proof of sale through the channel. Their monthly receivable balance has remained in the \$40 million range since the Desktop 95 launch and excess inventories of more than \$20 million are being held for Walmart. Some returns of older products were received and credited during Q96-2, and has been replaced by shipments of current inventory. They have refused to offer securities of any type because of their recent IPO.

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AUTHOR: NORM CHAPMAN (NORMC)

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INVENTORY

(in millions)

	Q96-3							Q96-2	Change	
	Finished Goods				OEM	Other	Total			
	North America	Europe	Far East	Icon				Subtotal FG		
Raw Materials	\$24.3	\$5.5	\$2.0	\$4.4	\$36.2	\$0.5	\$2.1	\$38.8	\$74.6	(\$35.8)
Work in Process	1.0	0.4	0.0	0.1	1.5	0.0	0.0	1.5	6.3	(4.8)
Finished Goods	88.4	26.9	9.9	12.7	137.9	10.5	7.0	155.4	145.0	10.4
Gross Inventory	113.7	32.8	11.9	17.2	175.6	11.0	7.1	193.7	225.9	(30.2)
Reserves for Obsolescence	(84.0)	(15.6)	(6.0)	(14.7)	(120.3)	(6.2)	(36.4)	(162.9)	(117.7)	(45.2)
Net Inventory	\$29.7	\$17.2	\$5.9	\$2.5	\$55.3	\$4.8	(\$27.3)	\$32.8	\$108.2	(\$75.4)

- Gross inventories decreased \$30 million during Q96-3 due to reduced production of finished goods and disposal of returned product.
- Reserves for specifically identified excess and obsolete inventory in the finished goods and OEM channels increased by \$15 million for the quarter. Other reserves are primarily corporate reserves for non-specific inventory exposures.

PROPERTY, PLANT, & EQUIPMENT

(in millions)

Property, plant and equipment - net (\$ in millions)			
	Q96-3	Q96-2	Increase
Land	\$207	\$206	\$0
Buildings	763	720	43
Leasehold Improvement	165	156	9
Furniture and Equipmen	274	261	13
Computer Equipment	792	737	55
	\$2,201	\$2,080	\$121
Accumulated Depreciat	(920)	(783)	(137)
Total	\$1,281	\$1,297	(\$16)

- Increases in buildings reflect construction of Redmond West and Building 27. For additional details, see the Real Estate and Construction section.
- Purchases of computer equipment totaled \$55 million during the quarter, down from \$66 million in Q96-2.

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OTHER ASSETS

(in millions)

	Cost			Market Value (if public)		
	Q96-3	Q96-2	Change	Q96-3	Q96-2	Change
Financial assets	\$125	\$125	--	\$140 (a)	\$148 (a)	(\$8)
TCI (MOSP J.V.)	84	84	--	--	--	--
Wang	38	38	--	47	64	(17)
Stac Inc.	30	30	--	27 (b)	37 (b)	(10)
Mtel	20	20	--	26	26	(1)
Santa Cruz Operation	18	--	18	--	--	--
MS/NBC	16	16	--	106	262	(156)
UUNet	15	15	--	--	--	--
MicroUnity	11	11	--	16	--	16
Individual	10	10	--	--	--	--
Lightspan	6	6	--	3	3	--
Metricom	4	4	--	--	--	--
Academic Systems	--	3	(3)	--	--	--
On Australia (Telecom JV)	3	3	--	--	--	--
Monotype	1	--	1	--	--	--
DreamWorks Interactive	2	2	--	--	--	--
DreamWorks	2	2	--	--	--	--
Citrix Systems	1	1	--	--	--	--
ASCI NT	--	--	--	16	--	16
Vanstar	386	370	16	\$380	\$541	(\$161)
Valuation allowance	(80)	(77)	(3)			
Mark to market	50	150	(100)			
Net financial assets	356	443	(87)			
Intellectual property rights	212	207	5			
Accumulated amortization	(94)	(81)	(13)			
Net intellectual property rights	118	126	(9)			
L/T Loans & Other	140	137	3			
Total other assets	\$613	\$706	(\$93)			

- a) Valuation includes 1,388,888 shares of Liberty Media.
b) Excludes MS's 1.4 million warrants in Mtel, 1.1 million of which have certain performance requirements, with an estimated current market value in excess of \$5 million.

- Total financial assets include equity and equity-related investments. MS maintains allowances to cover operating losses and declines in the estimated value of non-public investments and mark to market adjustments for publicly traded investments.
- Market values of investments in public companies decreased \$161 million during the quarter, primarily due to a very significant decrease in the stock price of UUNet. The mark to market valuation account was adjusted accordingly.
- Intellectual property rights represent purchased code or other intellectual property and rights. IPR costs in excess of \$1 million are capitalized and amortized as a product development cost over periods averaging about two years. IPR increased \$5 million during the quarter reflecting the purchase of Colusa (\$12 million) and Aspect (\$12 million) offset by the write-off of Network Manager (\$14 million) and Web Corp (\$3 million).

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Highlights of Current Investments
(See Appendix for additional details)

- Expanding the strategic alliance formed in May, 1995, Microsoft and NBC announced on Dec 14, 1995 the creation of two 50/50 joint ventures. The first, MSNBC Cable, will provide 24-hour news and information programming and the second, an interactive online news service via MSN.
- The joint ventures call for a Microsoft investment of \$220 million for MSNBC Cable and \$2.5 million for the online services, both over five years. In addition, NBC and MS are expected to invest another \$200 million each over five years to fund the cable and online services.
- Santa Cruz Operation (SCO) and Netscape announced a strategic agreement to create integrated Internet-based solutions. MS is currently negotiating the sale of its investment and a buy-out of the Unix royalty agreement with SCO.
- UUNet's share price has fallen 63% from a peak of \$98.75 on November 20, 1995 to \$36.875 on April 11, 1996. As a result, the value of MS's \$16 million investment is now \$154 million, down 25% from the previous quarter. UUNet canceled a secondary stock offering of 6.6 million shares due to its weak stock price. UUNet currently has 543 POPs in service, including 288 outside the United States. UUNet also announced its intention to partner with the Directorate General of Telecommunications (Taiwan) to provide Internet access in Taiwan.
- MicroUnity raised \$10 million from Samsung in January 1996. And is currently negotiating with Motorola for licensing its technology. MicroUnity is also in discussion with TCI for the development of cable modems.
- Individual placed an IPO for 2.3 million shares at \$14 per share on March 15. MS's \$10.5 million investment is now worth \$15.5 million. Yahoo! is partnering with Individual to provide NewsPage service to their Internet search guide and real time services. Individual and Toshiba Corporation announced a 50/50 joint venture to form NewsWatch, a company providing customized news services in Japanese.
- Lightspan expects to raise about \$20 million in mid-1996; \$10 million from a new investor and \$10 million pro rata from the existing investors.
- Academic Systems has installed its Interactive Mathematics software on 16 campuses as of March 31, 1996. The company has recently signed a multi-campus, system-wide license agreement with California State University which is expected to generate several millions of dollars in revenues over the next three years.
- The "On Australia" Telecom JV is being realigned with Microsoft's MSN/Internet strategy. The JV will exist solely as a provider of Internet related services, with exclusive use of MS software and APIs. Microsoft will sell its 50% interest in the joint venture but will maintain a strategic relationship as On Australia will continue to be the primary delivery vehicle for Australian MSN content for some time.
- Vanstar completed an IPO of 8 million shares on March 11, 1996 with an offering price of \$10 per share. Concurrent with the IPO, Microsoft and certain other shareholders converted their warrants into common shares. Microsoft owns about 1.56 million shares (4% of total shares) with a market value of about \$16 million. As of March 1, 1996, Vanstar had hired 159 software engineers of which 92 have achieved the MS Certified System Engineer status. To date, MS has provided \$8.1 million of marketing development funds to Vanstar.

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New Deals**Helicon Publishing Limited**

(Financial information shown below is the most recent available)

(British Pounds Sterling have been converted to US Dollars using a conversion rate of \$1 = £1.5)

	Actual YTD		Plan YTD		Variance \$	Variance %
	Jan. 31, 1996	Jan. 31, 1996	Jan. 31, 1996	Jan. 31, 1996		
Net revenue	\$ 1.4	\$ 2.0	\$ (0.6)	(29) %		
Cost of revenue	0.8	1.2	(0.4)	(35)		
Gross profit	0.6	0.8	(0.2)	(20)		
Controllable expenses	0.8	0.7	0.1	9		
Net income	\$ (0.2)	\$ 0.1	\$ (0.2)	(337)		

- On April 9, 1996, Microsoft acquired 344,086 Preferred Ordinary shares for £800,000 (approximately US\$1.2 million) in Helicon Publishing Limited representing approximately 48% of voting shares. Microsoft will also assume a board seat. In total, Helicon raised £1.2 million (US\$1.8 million), which will be used to improve the company's databases of reference material, pay off certain loans, and invest in capital requirements.
- Helicon is a reference publisher in Oxford, England, which was formed in a management buyout of the Hutchinson reference business from Random House UK in 1992. Among the company's titles, Helicon publishes the Hutchinson Encyclopedia in book form as well as the only British-compiled encyclopedia on CD-ROM, The Hutchinson Multimedia Encyclopedia. The company has 22 full-time employees based in Oxford.
- Under agreements with Helicon, MS obtained a five-year license to use certain content for online systems, including the Internet, in exchange for £250,000 in prepaid royalties. Additionally, Helicon will create content for use in a MS almanac and chronology for distribution in any digital electronic format, including the Internet, for £250,000 plus additional payments once certain milestones are met.
- The financial information above is for the period from April 1, 1995 to January 31, 1996. Helicon performed under plan due to a delay in the Hutchinson Multimedia Encyclopedia, timing differences in co-edition sales, and lack of commitment from certain publishers waiting for assurance of Helicon's future independence. Although revenues were 29% below expectations, gross margin was below plan only 20% due a mix shift toward higher margin electronic sales.

Aha! Software

- On March 26, 1996 Microsoft acquired all of the intellectual property of Aha! software for \$1.1 million. Aha! developed an inking engine for small devices and marketed a product called InkWriter, which enables intelligent editing and

manipulation of electronic ink and text. Aha! technology will be used in Pegasus to bridge the gap between keyboard input modality and full handwriting recognition.

Vermeer Technologies Inc.

- On January 12th, Microsoft acquired Vermeer Technologies Inc. in a pooling of interests valued at \$130 million. Vermeer is a leading Cambridge-based developer of web publishing tools. Its principal product, FrontPage, is a tool for easily creating and managing web documents without programming.
- Thirty-one Vermeer employees moved to Microsoft with the majority joining the newly

formed Web Authoring product unit within the Desktop Applications Division under Chris Peters.

- The \$130 million valuation reflects the high-quality of FrontPage, the significant early lead Vermeer has built in this category and the competitive bidding situation vis-à-vis Netscape.

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AUTHOR: JEAN-FRANCOIS HETZ (JEANF)

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EXOS, Inc.

- On April 12, MS completed an acquisition of EXOS, Inc. EXOS is a developer of "force feedback" technology for game control devices. Force feedback technology enables users to feel gaming effects such as race-car crashes, turbulent flight simulations, and gun recoils. This technology will be incorporated into future versions of the Sidewinder joystick family.
- Consideration was \$5 million plus assumption of \$850,000 in liabilities. Of the \$5 million, \$3.0 million was paid in cash and the remainder in the form of Microsoft options.
- Three of the four person development team have accepted employment offers and are relocating to Redmond. They will work in the Input Device Group, reporting to Mike Paull.

Aspect Software Engineering, Inc.

- On March 22nd, MS completed an acquisition of Aspect Software Engineering, Inc. This deal was signed on March 11th and announced the following day at the Internet Professional Developers Conference.
- Aspect is a Honolulu based developer of Internet tools for accessing ODBC databases. Its primary product, dbWeb, is a tool for Windows NT HTTP servers. The tool enables real time access to ODBC databases through standard web browsers such as Internet Explorer and Netscape Navigator, and provides full insert/update/delete and other capabilities. Aspect's HTML Wizard for Microsoft Access enables users to create dynamic forms using the built-in Access Wizards and then port them for use with their Web server automatically.
- Both of these products will be incorporated in the next version of Microsoft Access. The acquisition will also play an important role in our broader dynamic HTML template strategy.
- Aspect's eight-member development team has relocated to Microsoft.
- The transaction was structured as a \$12.5 million exchange of shares.

Colusa Software Inc.

- On February 9, MS completed an acquisition of Colusa Software Inc. Colusa's principal product, Omniware, enables software developers to take code components written in existing programming languages such as C and C++ and create highly efficient, processor-independent client-side components for the Internet and intranet environments.
- MS will incorporate the Colusa technologies in future versions of our Internet and development tools products.
- Colusa was founded in 1994 and was based in Berkeley, CA. Its founders Steve Lucco and Robert Wahbe have relocated to Redmond as has a third member of the technical team.
- Colusa's method for memory protection, known as Software Fault Isolation, allows users to download programs safely from the Internet and run the programs in a fully protected memory space (even when pointers are used).
- The transaction was structured as a \$12 million exchange of shares.

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AUTHOR: JEAN-FRANCOIS HETZ (JEANF)

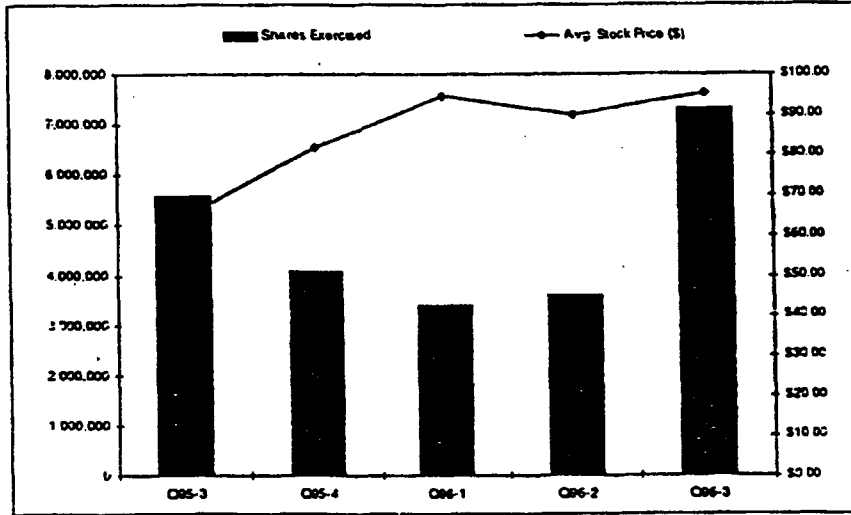
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RISK MANAGEMENT & HEDGING ACTIVITIES

Stock Options Grants and Exercises



- Microsoft stock traded at an average price of \$95.38 during Q96-3. The highest closing price during the quarter was \$106.87 and the lowest closing price was \$80.19.
- In Q96-3 the number of stock option exercises was 9.741, an increase of 85% over the same period in FY95. The number of shares exercised was 7.3 million, a 47% increase from Q95-3.
- During Q96-3, 853 stock option grants were issued, totaling 1.4 million shares. Of this total, 1.1 million shares were dated in Q96-3, with the

balance dated in prior quarters due to overlapping window periods.

- Cumulative outstanding options on 3/31/96 totaled 124.2 million with an average price of \$42.84. Authorized but unissued options totaled 192 million.
- Under the ESPP program, a total of 108,047 shares for the period ending 12/31/95 were issued to 3,457 international employees at a purchase price of \$74.59 per share. Domestic ESPP is reported in even numbered quarters.

Stock Repurchases

	Shares adjusted for all splits	Amount (millions)	Average Cost
FY90	3,570,750	\$ 46	\$13.07
FY91	10,939,500	197	17.98
FY92	3,959,655	135	34.09
FY93	6,257,000	250	39.96
FY94	6,639,000	348	40.24
FY95	11,669,000	698	59.82
Q95-1	1,600,000	151	94.18
Q95-2	4,000,000	373	93.32
Q96-3	3,842,000	370	96.47
Life to date	54,474,905	\$2,568	47.15

- During Q96-3, Microsoft purchased 3.8 million shares at an average price of \$96.47. A total of 54.5 million shares have been purchased life-to-date at an average price of \$47.15.

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AUTHOR: BRENT CALLINICOS (BRENCA)

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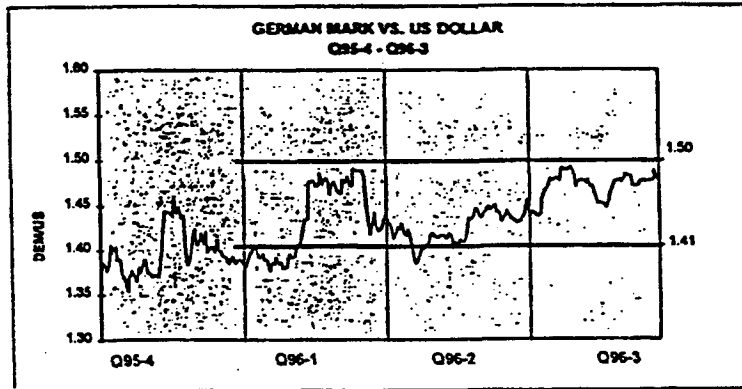
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Put Warrants

- At quarter end, 13 million put options were outstanding, with strike prices ranging from \$86-\$95, and an average strike of \$91. Maturities range from 6 to 18 months. Life-to-date program proceeds total \$144 million, \$11 million of which represent put options that have expired. Incremental premiums of \$44 million were earned during Q96-3.
- This program has enhanced the buyback program by reducing life-to-date stock buyback cost per share by \$2.65 (from \$47.15 to \$44.50).
- To recognize the amount that would be required to purchase all 13 million shares at their put option strike prices, a liability of \$1.2 billion would be required as an offset to retained earnings; this liability was reduced to \$606 million by selling "capped puts" which limit our liability to the difference between the \$91 average strike price and the "caps" of \$45 per share.

Foreign Exchange Hedging



- The dollar strengthened almost 3% versus the major European currencies during Q96-3, trading between a range of 1.43DM/\$ and 1.49DM/\$. The dollar similarly strengthened almost 3% versus the Japanese yen during Q3, trading between a range of 104Y/\$ and 108Y/\$.
- In Q96-1, Treasury bought foreign currency put options to hedge Microsoft's total forecasted FY96 fx denominated net cash flow exposure of \$1.3 billion. The financial instruments used were average rate put options for seventeen different currencies. Microsoft realized a gain (a positive adjustment to revenues) on these contracts of \$14 million in Q96-3 and \$9 million year to date. The value on the outstanding put options at the end of Q96-3 represent an additional unrealized gain of \$3 million.
- Treasury also has a continuing program to actively hedge the monthly exposure to foreign currency-denominated accounts receivable on a short-term rolling 30 day basis.

Counterparty Credit Risk

Counterparty	Credit Rating	Exposure (in \$M)	
		10/31/95	12/31/95
Comark	A+	\$10.8	\$17.4
German Sachs	AA-	\$1.8	\$3.5
		<u>\$12.6</u>	<u>\$20.9</u>

- Microsoft has foreign exchange and put warrant option positions with several counterparties. Summarized above is the mark-to-market loss that Microsoft would incur if one of these counterparties was to default.

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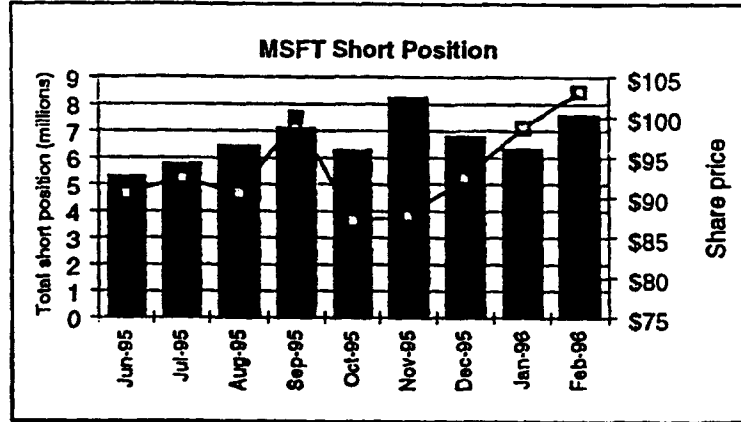
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AUTHOR VAUGHAN BRIGGS, VALUATION

INVESTOR RELATIONS

Short Positions



- Short interest in MSFT increased by 1.2 million or approximately 20% as the stock price rose nearly \$5 during March. The short position is relatively small at 1.3% of outstanding shares and 2.1% of the float and is consistent with an

overall increase in short interest on the NASDAQ. Short interest in MSFT shares has remained low this year despite the appreciation in price and the large overall short position for the market.

MSFT Sell Side Ratings

Firm	Analyst	Rating
Alex Brown	Mary McCaffrey	Strong Buy
Bear Stearns	Peter Rogers	Buy
Cowen & Co	Draw Brousseau	Strong Buy
Dean Witter	Peter Rubicam	Strong Buy
Dillon, Read & Co.	Frank Michinoff	Buy
First Boston	Bill Gurley	Buy
Furman Setz	Terence Quinn	Recommended
Goldman Sachs	Rick Sherlund	Mod. Outperform
Hambrecht & Quist	Christopher Gavin	Buy
Merrill Lynch	Luci Painter	Strong Buy
Montgomery	David Readerman	Buy
Morgan Stanley	Mary Meeker	Strong Buy
Paine Webber	Michael Kwatinetz	Buy
Prudential	Jaime Gigger	Buy
Raymond James	Sanjiv Higorani	Strong Buy
Roberts, Stephens	Rich Edwards	Strong Buy
Smith Barney	Terrie Murphy	Strong Buy
Sound View	John Maxwell	Strong Buy
William Blair	Laura Lederman	Buy

Note: Most rating text based on I/B/E/S terminology

New Coverage Initiated: Fred Dickson at D. A. Davidson upgraded MSFT from underperform to hold on March 19th and Merrill Lynch's Luci Painter raised the intermediate-term rating from accumulate to buy (strong buy in I/B/E/S terminology).

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Institutional Buyers and Sellers

Top 5 Buyers 1st Qtr		Investment	Turnover	Change Since	Current Position
Institutions	Style	Rate	December	March	
Putnam Investment Management	Growth	Mod	2,549,667	3,666,000	
State Street Research & Management C	Growth	Mod	1,210,000	2,200,000	
Alliance Capital Management L.P.	Growth	Low	956,000	5,756,000	
Loomis Sayles & Co.	Growth	Moderate	920,000	1,145,000	
AM Capital Management, Inc.	Momentum	High	619,500	1,214,500	
Total			6,255,367		

Top 5 Sellers 1st Qtr		Investment	Turnover	Change Since	Current Position
Institutions	Style	Rate	December	March	
Chancellor Capital Management	Growth	Mod	-1,635,000	445,000	
First Interstate Bancorp	Value	Low	-1,205,000	295,000	
T. Rowe Price Associates	Growth	Low	-745,750	444,250	
Investors Research Corporation	Momentum	High	-650,000	3,350,000	
TCW Asset Management	Growth	Mod	-411,820	1,768,371	
Total			-4,867,370		

- In the first quarter of 1996 many institutional growth managers increased their positions in Microsoft stock. Alliance Capital and Jennison Associates, which had taken some profits in February, were significant buyers during March. State Street, Putnam and Columbus Circle picked up additional shares after a couple

months of very little movement. Investors Research continued the trend during 1995 of momentum players reducing their presence in the stock. J.P. Morgan took some profits but did not signal a retreat of value investors which view the stock as reasonably priced given the potential earnings growth.

Top Institutional Holders

Top 15	Investment	Turnover	March
Institutions	Style	Rate	Position
BZW (Wells Fargo) Investment Advisors	Index	Low	14,055,000
Bankers Trust Company	Index	Low	7,869,500
Provident Investment Counsel	Growth	Low	5,776,698
Alliance Capital Management L.P.	Growth	Low	5,756,000
Investors Research Corporation	Momentum	High	3,350,000
State Street Bank & Trust Company	Index	Low	4,000,000
California Public Employees' Retirement System	Index	Low	3,025,000
College Retirement Equities Fund	Index	Low	3,036,550
Mellon Bank Corporation	Index	Low	2,821,000
W.P. Stewart & Co.	Growth	Low	2,794,000
RCM Capital Management	Growth	Mod	2,671,000
New York State Common Retirement System	Index	Low	2,752,600
Morgan Stanley Asset Management Inc.	Growth	Mod	2,740,000
Jennison Associates Capital Corp.	Growth	Mod	3,100,000
Columbus Circle Investors	Momentum	High	2,915,000

- As with many technology companies, Microsoft shares have experienced a rotation of investor base from growth to value. This shift began when the shares became oversold at the \$80 level in early January and has continued through February. It was the first month that the technology sector, as measured by the NASDAQ composite, outperformed the Dow Index since September of last year. The under performance

of the group coupled with the expected long-term earnings growth exceeding that of other sectors will continue to attract value investors provided multiples don't expand too quickly. However, institutional investors have been much more selective within the technology group than was true during the group's impressive run last year.

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Industry Watch

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COMPETITOR HIGHLIGHTS

Novell

- According to IDC, NetWare represented 51% of all server operating systems in 1995 with 63% market share in the network operating systems.
- Announced open beta availability of its NetWare Client 32 for DOS/Windows which offers DOS/Windows users full 32-bit access to NetWare services.
- Announced the first deliverables resulting from its developer initiative, named Net2000, that

extends desktop and network technologies across enterprise networks. Initiatives include: (1) new Basic language scripting capabilities to let developers build NetWare applications to manage servers across networks, including the Internet; (2) NetWare Directory Services components that expose directory functionality and move developers toward distributed computing; and (3) component management services to distribute ActiveX components and Java applets across global networks.

Oracle

- Oracle was downgraded by two analysts (Alex Brown and SoundView) after Informix and Sybase both pre-released March quarter earnings shortfalls. Analysts expressed a concern about a "freeze in the database software and tools market" possibly linked to price competition and Microsoft's announcement of ActiveX Controls. Oracle indicated to analysts they did not foresee a slowdown in the database market and they believed the Internet would benefit their business.
- Announced a number of products for the Intranet and Web including: Designer/2000 Web Server Generator, a version of Designer/2000 which can

dynamically produce Web applications; PowerBrowser, a Netscape and Explorer compatible browser with Java applet support and hooks which can be used to browse ODBC data bases; and Oracle Express Server, a Web based server that supports Intranet-based On-Line Analytical Processing (OLAP) applications.

- DEC implemented clustering technology for its ALPHA/UNIX server line which is optimized to take advantage of Oracle's parallel server product. Clustering technology allows users to continue working in the event of a single node, or in many cases a multi-node, failure.

IBM

- IBM was downgraded by Smith Barney, Morgan Stanley, and SoundView.
- Despite better than expected earnings, IBM's stock plunged \$10 ¼, or 9%, on worries about decreased hardware revenues, a 3% decline in hardware profit margins, sluggish PC sales in the U.S. corporate market, a sharp drop in revenue growth in their computer chip division, price and revenue declines in the computer-storage unit, and unfavorable foreign currency translations for the coming year.
- IBM is rumored to be close to licensing Apple's Macintosh operating system. IBM will not manufacture Mac clones but wants to become a one-stop shop for PC makers to sub-license the Mac operating system and the PowerPC chip.

- Lotus announced a lower pricing strategy for its SmartSuite business productivity suite in an effort to expand their share of the market. The SmartSuite upgrade for Windows or OS/2 is now \$149 compared to Office 95 at \$249.
- Prodigy announced it was laying off 115, or 17%, of its employees in an attempt to streamline and shift its business onto the Internet. Prodigy's management team has retained an investment banker to launch a management buyout of the on-line service and potentially take it public. Management's offer is rumored at \$250 million for the entire company, significantly less than the \$500 million Sears was asking in February for its 50% stake.

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Netscape

- Released an early beta version of Navigator 3.0, code-named Atlas, on its Web site. Navigator 3.0 is expected to be released in late summer and will incorporate real-time audio and video conferencing capabilities, along with support for 3-D plug-ins.
- Netscape shares surged nearly 10% following announcements by Lycos and Yahoo! in their initial public offering prospectuses that they will each pay Netscape approximately \$5 million in the year ending March 31, 1997 to have their search services included in Netscape's home page. It is rumored that Netscape may have made as much as \$25 million in revenues by including five services—Lycos, Yahoo!, Excite, Infoseek, and McKinley's Magellan—in a dashboard-style interface.
- Netscape's president, James Barksdale, and co-founder, Marc Andreessen sold 2,500,000 and 400,000 shares, respectively, during the period February 12th through 29th. The company responded that this was their first opportunity to sell shares since the IPO.
- Announced a joint venture with General Electric called Actra Business Systems with the aim of developing by early 1997 server software for business-to-business electronic commerce.
- Licensed Norton AntiVirus software for inclusion in Netscape Navigator to protect users from contracting viruses as they download and save files from the Internet.

Sun Microsystems

- Announced End System SKIP (Simple Key Management for Internet Protocol), an IETF standard and a stateless protocol which provides privacy and authentication services for both point-to-point and multicast data over networks. End System SKIP enables end user devices such as laptops, PCs and desktops to achieve secure communication across public networks.
- Announced the Ultra Enterprise server family which is claimed to improve performance as much as 10 times over competing systems. The servers have interchangeable components and allows components to be inserted and removed without shutting down the system.
- NBC selected Sun and MCI to participate in a 90-day trial to link affiliates via the latest digital technology in order to scan available video material and select desired programming. Sun SPARC-based workstations located at 20 NBC affiliates, in addition to a Sun SPARCserver 1000 located at MCI's Texas site, will be used to access and serve news clips delivered over MCI's network rather than using the current satellite delivery method.

Other

- Apple's \$304 million in long-term debt was downgraded to junk-bond status by Standard & Poor's and Moody's. The downgrade was caused by a perceived cash crisis at Apple. Apple responded by saying they are extremely encouraged about their ability to renegotiate the debt, including a past-due note.
- Three Internet Directory Services—Lycos, Yahoo!, and Excite Inc.—went public during the month of April. Yahoo's IPO priced at \$13 per share, traded as high as \$43, and closed its first day of trading at \$33, a 154% increase. Yahoo's lofty value (\$27) may be short-lived if it follows the other directory services, as Lycos priced at \$16, opened at \$29, and is now at \$15, while Excite priced at \$17, opened at \$21, and is now at \$13 1/2.
- CUC International announced it will acquire Davidson & Associates and Sierra On-Line for stock valued at the time of the announcement at \$2.2 billion but which quickly eroded to \$1.7 billion by the close that day. CUC (a membership shopping service) will become one of the largest developers of educational and entertainment software.
- AT&T announced the launch of WorldNet Service, its consumer Internet-access service, by offering its 90 million long distance customers five free hours of Internet access a month for the first year of usage. Unlimited usage will be offered for \$24.95 per month to users who are not AT&T long distance customers.
- The book-to-bill ratio was 0.80 for the three-month period ending in March, a new five year low. In their first quarter earnings release, Inc. announced their book-to bill ratio was below 1.0, but indicated they received a greater percentage of immediate delivery orders.

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AUTHOR: TIM HALLAGAY (TIME)

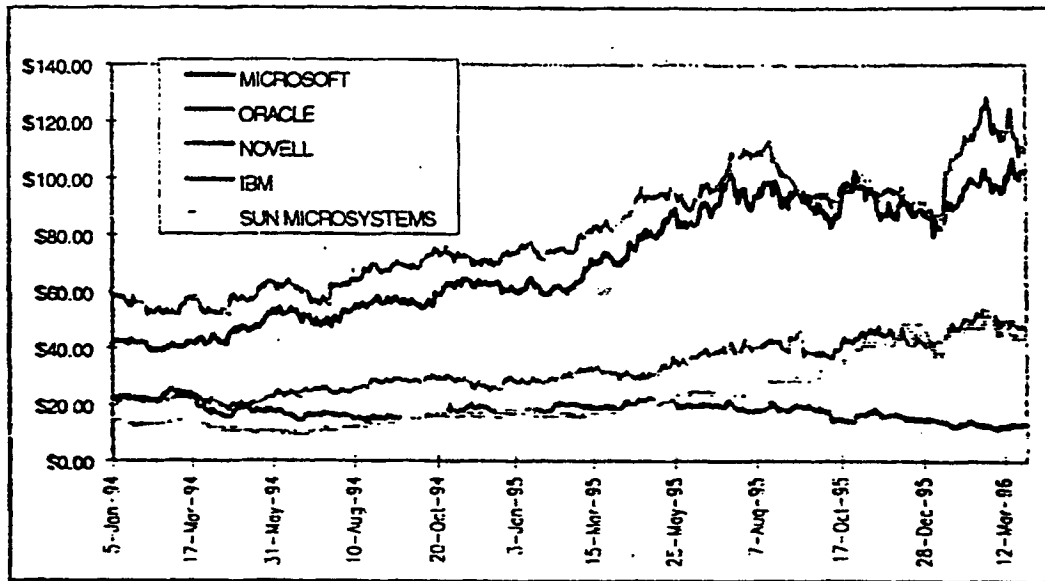
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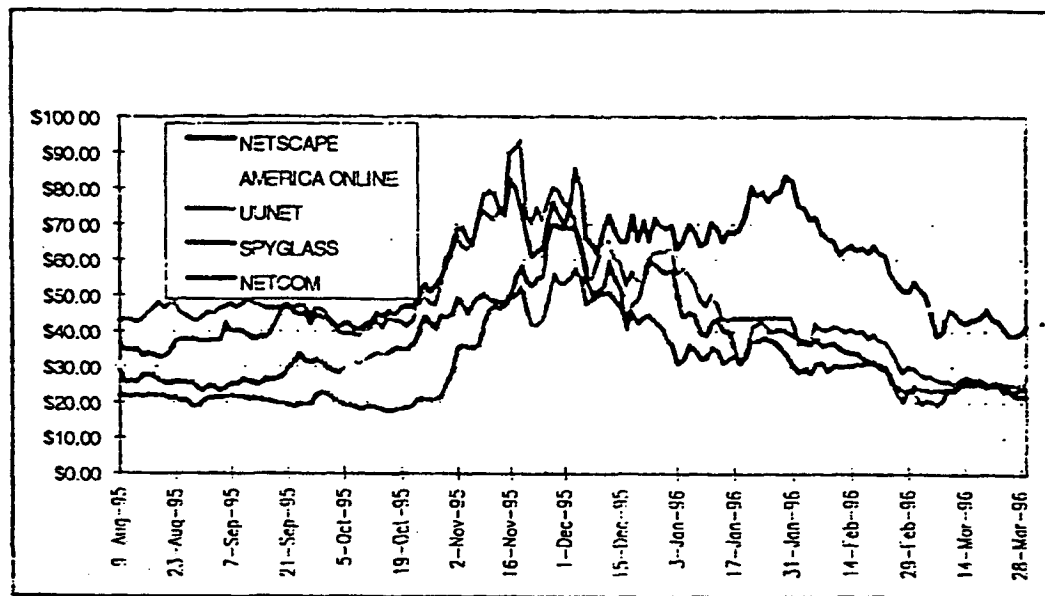
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KEY COMPETITOR STOCK PRICES



INTERNET/ONLINE STOCK PRICES



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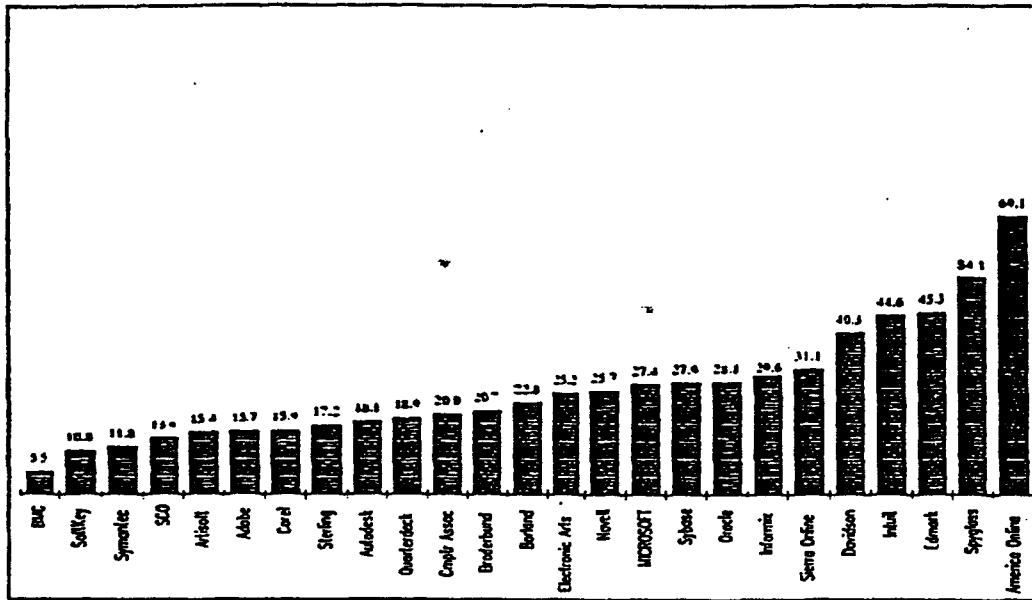
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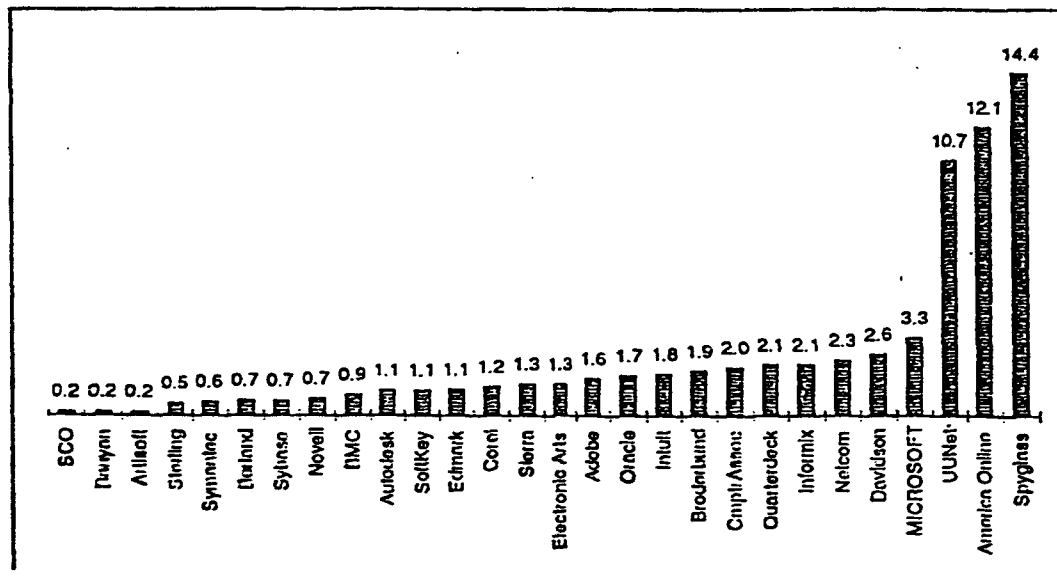
SOFTWARE FORWARD P/E RATIOS



- a) Forward P/E ratios are calculated based upon March 29, 1996 stock prices and analyst's consensus estimates for the next four quarters.
- b) The P/E ratio for Netscape (160) was excluded to maintain a normal scale.

MARKET VALUE PER EMPLOYEE

(in millions)



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AUTHOR: TIM HALLADAY (TOPICAL)

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TOP THREE SOFTWARE COMPANIES

(in millions)

Most recent quarter	Microsoft 3/31/96		Novell 1/31/96		Oracle 2/28/96	
	\$	%	\$	%	\$	%
Net revenue	2,205	100.0%	438	100.0%	1,020	100.0%
Cost of revenue	295	13.4	96	21.9	287	28.1
Gross profit	1,910	86.6	342	78.1	733	71.9
Research and development	364	16.5	79	18.0	93	9.1
Sales and marketing	685	31.1	123	28.2	365	35.8
General and administrative	87	3.9	39	8.9	55	5.4
Total operating expenses	1,136	51.5	259	59.2	513	50.3
Operating income	774	35.1	83	18.9	220	21.6
Nonoperating income	90	4.1	13	3.0	2	0.2
Income before income taxes	864	39.2	96	21.9	222	21.8
Provision (benefit) for income taxes	302	13.7	32	7.3	76	7.5
Net income	\$ 562	25.5%	\$ 64	14.6%	\$ 146	14.3%
Average shares outstanding	639		372		447	
EPS	\$ 0.88		\$ 0.17		\$ 0.33	
Trailing twelve months	Microsoft		Novell		Oracle	
Net revenue	\$ 8,037	100.0%	\$ 1,986	100.0%	\$ 3,777	100.0%
Cost of revenue	1,181	14.7	469	23.6	1,012	26.8
Gross profit	6,856	85.3	1,517	76.4	2,765	73.2
Research and development	1,243	15.5	356	17.9	402	10.6
Sales and marketing	2,501	31.1	564	28.5	1,381	36.6
General and administrative	312	3.9	157	7.9	214	5.7
Nonrecurring charge	--	--	18	0.9	--	--
Total operating expenses	4,056	50.5	1,095	55.2	1,997	52.9
Operating income	2,800	34.8	422	21.2	768	20.3
Nonoperating income	266	3.3	60	3.0	14	0.4
Income before income taxes	3,066	38.1	482	24.2	782	20.7
Provision (benefit) for income taxes	1,062	13.2	162	8.1	263	7.0
Net income	\$ 2,004	24.9%	\$ 320	16.1%	\$ 519	13.7%
Average shares outstanding	638		374		444	
EPS	\$ 3.14		\$ 0.86		\$ 1.17	

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TOP THREE SOFTWARE COMPANIES - continued

(in millions)

	Microsoft 3/31/96		Novell 1/31/96		Oracle 2/28/96	
Balance sheets						
Current assets:						
Cash and short-term investments	\$ 6,770	71%	\$ 1,248	53%	\$ 710	26%
Accounts receivable - net	681	7	518	22	775	28
Inventories	33	--	25	1	--	--
Other	212	2	114	5	291	10
Total current assets	7,696	80	1,905	81	1,776	64
Property, plant and equipment - net	1,281	13	379	16	652	24
Capitalized software	--	--	--	--	99	4
Other assets	613	7	71	3	236	8
	<u>\$ 9,590</u>	<u>100%</u>	<u>\$ 2,355</u>	<u>100%</u>	<u>\$ 2,763</u>	<u>100%</u>
Current liabilities						
Current liabilities	\$ 2,264	24%	\$ 444	19%	\$ 1,070	39%
Long-term liabilities	--	--	--	--	93	3
Other liabilities	125	1	17	1	9	--
Put warrants	606	6	--	--	--	--
Stockholders' equity	6,595	69	1,894	80	1,591	58
	<u>\$ 9,590</u>	<u>100%</u>	<u>\$ 2,355</u>	<u>100%</u>	<u>\$ 2,763</u>	<u>100%</u>
Other data						
Closing stock price (Mar. 29, 1996)	\$103.13		\$13.38		\$42.38	
Common shares outstanding	639		372		447	
Market value	\$65,900		\$4,977		\$18,944	
Price/revenue ratio	8.2x		2.5x		5.0x	
Price/earnings ratio - trailing twelve	32.8x		15.6x		36.2x	
Price/earnings ratio - future 4 quarters	27.4x		25.7x		28.1x	
Headcount (most recent disclosure)	20,208		7,000		12,500	
Net revenue/employee (in thousands)	\$398		\$284		\$302	
Book value per share	\$10.32		\$5.09		\$3.56	
Price/book value ratio	10.0x		2.6x		11.9x	
Growth statistics (over comparable quarter):						
Revenue	39%		(11%)		41%	
Research and development	67%		(12%)		38%	
Sales and marketing	33%		(12%)		40%	
General and administrative	28%		13%		32%	
Net income	42%		(22%)		40%	

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INDUSTRY REVIEW

Software Companies

(in millions)

	Adobe 3/1/96	Artisoft 12/31/95	Autodesk 10/31/95	BMC 12/31/95	Banyan 12/31/95
Income statement					
Most recent quarter					
Net revenue	\$194	\$14	\$129	\$119	\$28
Net income (loss)	34	(13)	19	13 (c)	(17) (d)
EPS	0.44	(0.91)	0.38	0.25	(1.03)
Trailing twelve months					
Net revenue	\$719	\$58	\$537	\$397	\$130
Net income (loss)	85	(19)	79 (b)	70	(21)
EPS	1.21	(1.31)	1.57	1.35	(1.25)
Net income (loss) as a % of net revenues	12%	(33%)	15%	18%	(16%)
Balance sheet					
Cash	\$540	\$39	\$207	\$102	\$31
Other current assets	182	25	148	119	41
Other assets	205	12	175	321	34
	<u>\$927</u>	<u>\$76</u>	<u>\$530</u>	<u>\$542</u>	<u>\$106</u>
Liabilities	\$190	\$20	\$167	\$194	\$62
Equity	737	56	363	348	44
	<u>\$927</u>	<u>\$76</u>	<u>\$530</u>	<u>\$542</u>	<u>\$106</u>
Other data					
Closing stock price (Mar. 29, 1996)	\$32.25	\$7.88	\$37.75	\$16.25	\$7.63
Common shares outstanding (in millions)	76	14	50	52	17
Market value (in millions)	\$2,451	\$110	\$1,888	\$845	\$130
Price/revenue ratio	3.4x	1.9x	3.5x	2.1x	1.0x
Price/earnings ratio - trailing twelve	26.7x	n/m	24.1x	12.0x	n/m
Price/earnings ratio - future 4 qtrs.	15.7x	15.4x	18.1x	5.5x	95.3x
Headcount (most recent disclosure)	1,566	600	1,788	987	692
Net revenue/employee (in thousands)	\$459	\$97	\$301	\$402	\$187
Book value per share	\$9.70	\$4.00	\$7.26	\$6.69	\$2.59
Price/book value ratio	3.3x	2.0x	5.2x	2.4x	2.9x
Growth statistics (over comparable quarter):					
Revenue	15%	(44%) (a)	19%	31%	(32%)
Research and development	43%	608%	22%	187%	25%
Sales and marketing	36%	(29%)	21%	35%	15%
General and administrative	35%	(35%)	12%	41%	0%
Net income	(2%)	(411%) (a)	21%	(53%)	(472%) (d)

a) Artisoft's comparable quarter included the revenues and net income of the Eagle Technology business unit which was sold in January 1995.

b) Autodesk's trailing twelve month results include a charge of \$26 million for a litigation judgment.

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c) BMC recorded acquisition charges of \$23 million in the December quarter.

d) Banyan's December quarter results include after tax charges of \$11 million. Also, Banyan experienced lower than expected sales of VINES and ENS during the current year.

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Software Companies - continued

(in millions)

Income statement	Borland	Computer	Corel	Informix	Intuit	Platinum
	12/31/95	12/31/95	2/29/96	12/31/95	1/31/96	12/31/95
Most recent quarter						
Net revenue	\$47	\$1,004	\$36	\$217	\$222	\$10
Net income (loss)	1	227	(7)	39	22	(11)
EPS	0.03	0.90	(0.12)	0.28	0.46	(0.82)
Trailing twelve months						
Net revenue	\$208	\$3,196	\$196	\$709	\$483	\$51
Net income (loss)	(45) (a)	(109) (b)	7	105	(5)	(18)
EPS	(1.50)	(0.43)	0.12	0.76	(0.12) (c)	(1.38)
Net income (loss) as a % of net revenues	(21%)	(3%)	3%	15%	(1%)	(36%)
Balance sheet						
Cash	\$87	\$163	\$59	\$252	\$203	\$15
Other current assets	31	1,215	111	220	165	16
Other assets	126	3,504	51	202	142	19
	<u>\$244</u>	<u>\$4,882</u>	<u>\$221</u>	<u>\$674</u>	<u>\$510</u>	<u>\$50</u>
Liabilities	\$84	\$3,660	\$27	\$251	\$211	\$34
Equity	160	1,222	194	423	299	16
	<u>\$244</u>	<u>\$4,882</u>	<u>\$221</u>	<u>\$674</u>	<u>\$510</u>	<u>\$50</u>
Other data						
Closing stock price (Mar. 29, 1996)	\$18.00	\$71.63	\$9.86	\$26.38	\$45.00	\$7.00
Common shares outstanding (in millions)	33	254	57	141	48	13
Market value (in millions)	\$594	\$18,193	\$562	\$3,719	\$2,160	\$91
Price/revenue ratio	2.9x	5.7x	2.9x	5.2x	4.5x	1.8x
Price/earnings ratio - trailing twelve	n/m	n/m	83.1x	34.8x	n/m	n/m
Price/earnings ratio - future 4 qtrs.	22.8x	20.0x	15.9x	29.6x	44.6x	700.0x
Headcount (most recent disclosure)	900	9,000	450	1,718	1,228	657
Net revenue/employee (in thousands)	\$231	\$355	\$435	\$413	\$394	\$78
Book value per share	\$4.85	\$4.81	\$3.40	\$3.00	\$6.23	\$1.23
Price/book value ratio	3.7x	14.9x	2.9x	8.8x	7.2x	5.7x
Growth statistics (over comparable quarter):						
Revenue	(19%)	39%	(2%)	45%	36%	(24%)
Research and development	(33%)	26%	80%	30%	35%	(14%)
Sales and marketing	(41%)	(2%)	11%	28%	(27%)	(4%)
General and administrative	n/a	n/a	32%	45%	75%	0%
Net income	104%	30%	(627%)	63%	63%	(285%)

- a) Borland's trailing twelve months include a restructuring charge of \$50 million.
b) Computer Associates' trailing twelve months includes the write-off of purchased R&D of \$808 million relating to the acquisition of Legent.
c) Intuit's trailing twelve month results include purchased R&D write offs and other merger costs of \$43 million, offset by the Microsoft termination fee of \$41 million.

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Software Companies - continued

Income statement	Quarterdeck	Santa Cruz Operation	Sterling	Sybase	Symantec
	12/31/95	12/31/95	12/31/95	3/31/96	12/31/95
Most recent quarter					
Net revenue	\$33	\$48	\$149	\$244	\$111
Net income (loss)	2 (a)	(33) (b)	21	(7)	0
EPS	0.07	(0.99)	0.80	(0.09)	0.01
Trailing twelve months					
Net revenue	\$83	\$199	\$610	\$984	\$393
Net income (loss)	4	(29)	92	(9) (c)	35
EPS	0.78	(0.88)	3.70	(0.12)	0.78
Net income (loss) as a % of net revenues	5%	(15%)	15%	(1%)	9%
Balance sheet					
Cash	\$8	\$42	\$237	\$204	\$122
Other current assets	227	62	197	250	113
Other assets	(172)	45	268	313	58
	<u>\$63</u>	<u>\$149</u>	<u>\$702</u>	<u>\$767</u>	<u>\$293</u>
Liabilities	\$24	\$56	\$343	\$315	\$122
Equity	<u>39</u>	<u>93</u>	<u>359</u>	<u>452</u>	<u>171</u>
	<u>\$63</u>	<u>\$149</u>	<u>\$702</u>	<u>\$767</u>	<u>\$293</u>
Other data					
Closing stock price (Mar. 29, 1996)	\$14.75	\$6.13	\$70.50	\$23.13	\$12.88
Common shares outstanding (in millions)	29	33	27	73	56
Market value (in millions)	\$428	\$202	\$1,904	\$1,688	\$721
Price/revenue ratio	5.2x	1.0x	3.1x	1.7x	1.8x
Price/earnings ratio - trailing twelve	18.9x	n/m	19.1x	n/m	16.5x
Price/earnings ratio - future 4 qtrs.	18.9x	13.9x	17.2x	27.9x	11.8x
Headcount (most recent disclosure)	198	1,205	3,700	2,528	1,204
Net revenue/employee (in thousands)	\$418	\$165	\$165	\$389	\$326
Book value per share	\$1.34	\$2.82	\$13.30	\$6.19	\$3.05
Price/book value ratio	11.0x	2.2x	5.3x	3.7x	4.2x
Growth statistics (over comparable quarter):					
Revenue	205%	0%	18%	13%	32%
Research and development	59%	7%	(1%)	22%	62%
Sales and marketing	182%	5%	20%	20%	58%
General and administrative	117%	13%	n/a	19%	59%
Net income	149%	(251%)	135%	60%	(96%)

a) Quarterdeck recorded a \$4 million charge for the acquisition of Inset Systems, which reduced EPS \$0.14 in the December quarter.

b) SCO's current quarter loss includes \$38 million for the acquisition of the UNIX business from Novell.

c) Sybase's trailing twelve month results include a \$20 million charge for the purchase of in-process technology.

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AUTHOR: TIM HALLADAY (TINHALL)

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Internet/Online Companies

(in millions)

	America				
	Online	Netcom	Netscape	Spyglass	UUNet
	12/31/95	12/31/95	12/31/95	12/31/95	12/31/95
Income statement					
Most recent quarter					
Net revenue	\$249	\$20	\$41	\$4	\$34
Net income (loss)	11	(5)	2	1	(12)
EPS	0.10	(0.55)	0.06	0.06	(0.37)
Trailing twelve months					
Net revenue	\$705	\$52	\$78	\$12	\$67
Net income (loss)	4	(14)	(1)	2	(13)
EPS	0.06	(1.75)	(0.02)	0.38	(0.47)
Net income (loss) as a % of net revenues	1%	(27%)	(1%)	20%	(19%)
Balance sheet					
Cash	\$132	\$146	\$126	\$35	\$60
Other current assets	98	3	36	7	22
Other assets	464	54	66	3	56
	<u>\$694</u>	<u>\$203</u>	<u>\$228</u>	<u>\$45</u>	<u>\$138</u>
Liabilities	\$288	\$18	\$55	\$5	\$57
Equity	406	185	173	40	81
	<u>\$694</u>	<u>\$203</u>	<u>\$228</u>	<u>\$45</u>	<u>\$138</u>
Other data					
Closing stock price (Mar. 29, 1996)	\$37.50	\$36.00	\$139.00	\$57.00	\$63.00
Common shares outstanding (in millions)	106	10	42	12	32
Market value (in millions)	\$3,975	\$360	\$5,838	\$684	\$2,016
Price/revenue ratio	5.6x	6.9x	74.8x	56.2x	30.0x
Price/earnings ratio - trailing twelve	n/m	n/m	n/m	148.7x	n/m
Price/earnings ratio - future 4 qtrs.	69.1x	n/m	159.6x	54.1x	79.7x
Headcount (most recent disclosure)	1,000	153	258	48	258
Net revenue/employee (in thousands)	\$705	\$343	\$302	\$254	\$260
Book value per share	\$3.83	\$18.50	\$4.12	\$3.33	\$2.53
Price/book value ratio	9.8x	1.9x	33.7x	17.1x	24.9x
Growth statistics (over comparable quarter):					
Revenue	237%	279%	11,588%	91%	721%
Research and development	177%	236%	1,077%	223%	230%
Sales and marketing	233%	31%	1,197%	101%	278%
General and administrative	275%	10%	345%	117%	91%
Net income	134%	n/m	159%	213%	(418%)

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AUTHOR: THE HALLADAY (THE WALL)

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Consumer Software Companies

(in millions)

	Broderbund 2/28/96	Davidson & Assoc. 12/31/95	Edmark 12/31/95	Electronic Arts 12/31/95	Sierra On-Line 12/31/95	SoftKey 12/31/95
Income statement						
Most recent quarter						
Net revenue	\$48	\$47	\$13	\$240	\$63	\$48
Net income (loss)	19 (a)	6	2	29	12	(89) (c)
EPS	0.87	0.17	0.33	0.54	0.58	(3.25)
Trailing twelve months						
Net revenue	\$192	\$145	\$32	\$521	\$135	\$164
Net income (loss)	49	13	4	46	16	(61)
EPS	2.28	0.37	0.54	0.85	0.82	(2.41)
Net income (loss) as a % of net revenues	25%	9%	12%	9%	12%	(37%)
Balance sheet						
Cash	\$178	\$18	\$30	\$97	\$85	\$78
Other current assets	30	55	13	209	72	75
Other assets	8	13	3	119	25	747
	<u>\$216</u>	<u>\$86</u>	<u>\$45</u>	<u>\$425</u>	<u>\$182</u>	<u>\$900</u>
Liabilities	\$50	\$26	\$6	\$137	\$68	\$685
Equity	<u>166</u>	<u>60</u>	<u>40</u>	<u>288</u>	<u>114</u>	<u>215</u>
	<u>\$216</u>	<u>\$86</u>	<u>\$45</u>	<u>\$425</u>	<u>\$182</u>	<u>\$900</u>
Other data						
Closing stock price (Mar. 29, 1996)	\$37.75	\$23.38	\$24.00	\$26.50	\$33.63	\$20.13
Common shares outstanding (in millions)	22 (b)	36	7	55	21	27
Market value (in millions)	\$831	\$842	\$177	\$1,458	\$706	\$543
Price/revenue ratio	4.3x	5.8x	5.6x	2.8x	5.2x	3.3x
Price/earnings ratio - trailing twelve	16.6x	63.4x	44.1x	31.1x	40.8x	"
Price/earnings ratio - future 4 qtrs.	20.7x	40.3x	45.3x	25.2x	31.1x	10.8x
Headcount (most recent disclosure)	438	327	156	1,077	540	512
Net revenue/employee (in thousands)	\$439	\$443	\$202	\$484	\$249	\$320
Book value per share	\$7.55	\$1.67	\$5.35	\$5.24	\$5.43	\$7.96
Price/book value ratio	5.0x	14.0x	4.5x	5.1x	6.2x	2.5x
Growth statistics (over comparable quarter):						
Revenue	6%	35%	35%	11%	80%	35%
Research and development	41%	31%	91%	44%	9%	91%
Sales and marketing	31%	29%	66%	19%	92%	66%
General and administrative	10%	n/a	(18%)	11%	n/a	(18%)
Net income	82%	62%	126%	23%	(26%)	(1,512%) (c)

- a) Broderbund's results for the February quarter include a \$16 million break-up fee from the terminated merger with The Learning Company.
- b) Broderbund announced a 2 million share buyback program.
- c) SoftKey recorded a one-time charge of \$100 million related to acquisitions of The Learning Company, Minnesota Educational Computing Corporation, and Compton's New Media.

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AUTHOR: TIM HALLADAY (TIMHALL)

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Hardware Companies

(in millions)

Income statement	AST	Apple	Compaq	DEC	Dell	Gateway
	12/31/95	3/31/96	12/31/95	12/31/95	1/28/96	12/31/95
Most recent quarter						
Net revenue	\$615	\$2,185	\$4,701	\$3,951	\$1,539	\$1,245
Net income (loss)	(129)	(740) (a)	82 (b)	140	70	39
EPS	(2.88)	(5.98)	0.30	0.91	0.70	0.74
Trailing twelve months						
Net revenue	\$2,348	\$10,911	\$14,755	\$14,440	\$5,296	\$3,676
Net income (loss)	(264)	(646)	789	413	260	173
EPS	(7.03)	(5.22)	2.88	2.73	2.62	2.19
Net income (loss) as a % of net revenues	(11%)	(6%)	5%	3%	5%	5%
Balance sheet						
Cash	\$125	\$592	\$745	\$1,495	\$646	\$169
Other current assets	713	3,685	5,782	5,958	1,311	697
Other assets	218	957	1,291	2,562	191	258
	<u>\$1,056</u>	<u>\$5,234</u>	<u>\$7,818</u>	<u>\$10,015</u>	<u>\$2,148</u>	<u>\$1,124</u>
Liabilities	\$745	\$3,178	\$3,204	\$6,185	\$1,175	\$1,124
Equity	311	2,056	4,614	3,826	973	556
	<u>\$1,056</u>	<u>\$5,234</u>	<u>\$7,818</u>	<u>\$10,015</u>	<u>\$2,148</u>	<u>\$1,124</u>
Other data						
Closing stock price (Mar. 29, 1996)	\$4.77	\$24.56	\$38.63	\$55.00 (c)	\$33.50	\$27.88
Common shares outstanding (in millions)	45	124	276	154	100	79
Market value (in millions)	\$214	\$3,046	\$10,661	\$8,470	\$3,350	\$2,206
Price/revenue ratio	0.1x	0.3x	0.7x	0.6x	0.6x	0.6x
Price/earnings ratio - trailing twelve	n/m	n/m	13.4x	20.1x	12.8x	12.7x
Price/earnings ratio - future 4 qtrs.	n/m	n/m	8.9x	11.9x	10.0x	9.2x
Headcount (most recent disclosure)	6,500	16,250	21,137	61,100	8,400	7,800
Net revenue/employee (in thousands)	\$361	\$671	\$698	\$236	\$631	\$471
Book value per share	\$6.91	\$16.58	\$16.72	\$24.84	\$9.73	\$7.02
Price/book value ratio	0.7x	1.5x	2.3x	2.2x	3.4x	4.0x
Growth statistics (over comparable quarter):						
Revenue	(4%)	(18%)	45%	14%	49%	51%
Research and development	16%	5%	428%	6%	32%	n/a
Sales and marketing	13%	5%	27%	(2%)	33%	96%
General and administrative	13%	n/a	n/a	n/a	n/a	n/a
Net income	(501%)	(1,114%)	(66%)	1,298% (d)	20%	50%

- a) Apple's current quarter reflects an after-tax inventory writedown of \$388 million and restructuring charges of \$130 million after-tax. The company anticipates reductions in headcount of approximately 2,800 over the next year.
- b) Compaq's current quarter includes a \$241 million, or \$0.87 per share, charge for purchased in-process technology in connection with the acquisitions of NetWorld and Thomas-Conrad Corp.
- c) DEC's stock fell 17% after announcing anticipated weak sales in the March quarter.
- d) DEC's net income increased significantly over the comparable quarter due to much lower selling expenses and headcount reductions.

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Hardware Companies - continued

(in millions)

	Hewlett Packard	IBM	Intel	Silicon Graphics	Sun
Income statement	1/31/96	3/31/96	3/30/96	12/31/95	3/31/96
Most recent quarter					
Net revenue	\$9,288	\$16,559	\$4,644	\$672	\$1,840
Net income (loss)	790	769	894	52	143
EPS	1.50	1.41	1.02	0.30	0.73
Trailing twelve months					
Net revenue	\$33,503	\$72,764	\$17,289	\$2,497	\$6,725
Net income (loss)	2,621	3,643 (a)	3,571	231	482
EPS	4.98	6.51	4.03	1.30	4.59
Net income (loss) as a % of net revenues	8%	5%	21%	9%	7%
Balance sheet					
Cash	\$3,296	\$6,396	\$3,350	\$412	\$857
Other current assets	14,200	32,458	5,207	1,085	2,081
Other assets	8,257	38,912	9,662	768	673
	<u>\$25,753</u>	<u>\$77,766</u>	<u>\$18,219</u>	<u>\$2,265</u>	<u>\$3,611</u>
Liabilities	\$13,511	\$55,946	\$4,584	\$822	\$1,534
Put warrants	0	0	734	0	0
Equity	<u>12,242</u>	<u>21,820</u>	<u>12,901</u>	<u>1,443 (c)</u>	<u>2,077</u>
	<u>\$25,753</u>	<u>\$77,766</u>	<u>\$18,219</u>	<u>\$2,265</u>	<u>\$3,611</u>
Other data					
Closing stock price (Mar. 29, 1996)	\$94.13	\$111.25	\$56.88	\$25.00	\$43.75
Common shares outstanding (in millions)	526	544	880	177	196
Market value (in millions)	\$49,510	\$60,520	\$50,050	\$4,425	\$8,575
Price/revenue ratio	1.5x	0.8x	2.9x	1.8x	1.3x
Price/earnings ratio - trailing twelve	18.9x	17.1x	14.1x	19.2x	9.5x
Price/earnings ratio - future 4 qtrs.	15.6x	8.8x	12.2x	14.2x	14.7x
Headcount (most recent disclosure)	105,200	302,196	29,500	3,750	14,500
Net revenue/employee (in thousands)	\$318	\$241	\$586	\$666	\$464
Book value per share	\$23.27	\$40.11	\$14.66	\$8.15	\$10.60
Price/book value ratio	4.0x	2.8x	3.9x	3.1x	4.1x
Growth statistics (over comparable quarter):					
Revenue	27%	5%	31%	22%	22%
Research and development	14%	67%	36%	33%	26%
Sales and marketing	16%	2%	34%	33%	21%
General and administrative	n/a	n/a	n/a	n/a	n/a
Net income	31%	(40%)	1% (b)	(11%)	33%

- a) IBM's trailing twelve months include a \$1.8 billion charge for the write off of purchased technology in the Lotus acquisition. Earnings per share would have been \$3.26 higher without the charge.
- b) Intel's comparable quarter included a pre-tax gain of \$81 million resulting from the settlement of litigation with AMD and the sale of part of Intel's interest in VLSI Technology, Inc.
- c) Silicon Graphics successfully completed its tender offer to purchase 19.2 million shares of Cray Research common stock for \$30, representing approximately 75% of the Cray shares outstanding at February 29, 1996.

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AUTHOR: TIM HALLADAY (TIMHALL)

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Key Relationships

(in millions)

	RR		
	Egghead	Merisel	Donnelley
	12/31/95	12/31/95	12/31/95
Income statement			
Most recent quarter			
Net revenue	\$216	\$1,578	\$1,998
Net income (loss)	(1)	(77)	95
EPS	(0.05)	(2.59) (b)	0.62
Trailing twelve months			
Net revenue	\$802	\$5,957	\$6,512
Net income (loss)	(7) (a)	(84)	299
EPS	(0.38)	(2.82)	1.95
Net income (loss) as a % of net revenues	(1%)	(1%)	5%
Balance sheet			
Cash	\$16	\$1	\$19
Other current assets	287	1,034	1,848
Other assets	35	195	3,456
	<u>\$338</u>	<u>\$1,230</u>	<u>\$5,323</u>
Liabilities			
Equity	<u>\$196</u>	<u>\$1,076</u>	<u>\$3,210</u>
	<u>142</u>	<u>154</u>	<u>2,113</u>
	<u>\$338</u>	<u>\$1,230</u>	<u>\$5,323</u>
Other data			
Closing stock price (Mar. 29, 1996)	\$10.69	\$2.44	\$34.50
Common shares outstanding (in millions)	18	30	154
Market value (in millions)	\$192	\$73	\$5,313
Price/revenue ratio			
Price/revenue ratio	0.2x	0.0x	0.8x
Price/earnings ratio - trailing twelve	n/m	n/m	17.7x
Price/earnings ratio - future 4 qtrs.	4.5x	15.2x	15.7x
Headcount (most recent disclosure)			
Headcount	2,500	3,072	39,000
Net revenue/employee (in thousands)	\$321	\$1,939	\$167
Book value per share			
Book value per share	\$7.89	\$5.13	\$13.72
Price/book value ratio	1.4x	0.5x	2.5x
Growth statistics (over comparable quarter):			
Revenue	(15%)	11%	37%
Sales, general, and administrative	(10%)	7%	40%
Net income	(125%)	(2,994%)	9%

a) Egghead's trailing twelve months results included \$4 million in relocation, severance, and related costs associated with moving their headquarters to Spokane.

b) Merisel's December quarter loss per share of \$2.59 was comprised of supplier account reconciliations (\$.87), losses in Europe (\$.23) and Australia (\$.18), write-off of its operating system (\$.52), and write-off of goodwill attributed to the Computerized franchise business (\$.79).

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AUTHOR: TIM HALLAGAY (T.HALL)

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Q96-3 REVENUE SUMMARY RECONCILIATION

(\$ in millions)	Revenue Summary			WW Total	Reconciling Items		Gross Revenue	Revenue Adj's	Net Revenue
	FG	DEM	Other		Unbundle	Other			
Desktop Applications (New User)	\$747.2	\$68.0	\$0.0	\$815.2	(\$16.7)				
Desktop Applications (Existing User)	213.1	0.0	0.0	213.1	(5.7)				
Total Desktop Applications	960.3	68.0	0.0	1,028.3	(22.3)	(\$23.4)	\$982.6	\$20.7	\$1,003.3
Business Systems (New User)	238.5	18.1	0.0	256.6	29.5				
Business Systems (Existing User)	16.7	0.0	0.0	16.7	4.5				
Total Business Systems	255.2	18.1	0.0	273.3	34.0	(11.4)	295.9	(\$11.0)	284.9
Consumer	101.2	89.7	0.0	191.0	1.5	2.6	195.0	5.0	200.0
Personal Finance	0.1	1.4	0.0	1.5	0.1	0.3	1.9	(0.3)	1.5
Microsoft On-line	0.0	0.1	21.0	21.0	0.0	0.0	21.0	(2.0)	19.1
Personal Systems	(8.2)	561.1	0.0	552.9	(13.6)	(3.3)	536.0	189.0	725.0
Developer	118.5	0.2	0.0	118.7	0.2	2.0	120.8	(8.8)	111.0
Consumer Systems	0.0	0.0	8.0	8.0	0.0	(2.5)	5.4	3.4	8.8
Press	0.0	0.0	18.6	18.6	0.0	0.0	18.6	(0.6)	18.0
Other	36.0	(7.6)	0.4	28.8	0.2	(36.2)	(7.1)	(4.2)	(11.3)
Product Divisions	\$1,463.1	\$731.0	\$47.9	\$2,242.0	\$0.0	(\$72.0)	\$2,170.0	\$190.2	\$2,360.2

- The revenue summary is management's standard view of gross revenue, licenses, and revenue per license which allows both a channel and product division perspective of sales in a single report. Revenue summary reports product revenue on an "as shipped" basis, that is, how a customer buys product from MS. For example, Excel is sold both as a stand-alone product and bundled as part of Office.
- In the Revenue Summary Report, Excel sold as part of Office is reported as Office sales, but Excel sold as a stand-alone product is reported separately. Conversely, for purposes of measuring product divisions, revenue is "unbundled." For example, Mail is a component of Office, but development occurs in the Business Systems Division, thus associated revenue for Mail is attributed to BSD rather than Desktop Applications.
- Additionally, the revenue summary segregates new users from existing users for Desktop Application products. Segregating users allows channel and product division management to track sales of new licenses versus upgrades.
- The table above reconciles the revenue summary shown in the Microsoft Results section with the product division P&Ls shown in the Product Division section. The primary reconciling item between Desktop Applications and BSD represents the unbundling of Mail from Office. Other reconciling items above include manuals, promotional copies of software, raw materials, and recurring maintenance which are shown as "other" in the revenue summary but included as specific product division revenue in product P&Ls. These items are reclassified in the revenue summary in order to report meaningful revenue per license information.

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AUTHOR: STEVE HOBRECHT (STEVENOB)

MICROSOFT CONFIDENTIAL - A1

MS-PCA 1192466
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Q96-3 MICROSOFT WORLDWIDE REVENUE SUMMARY

(\$ in thousands, except Revenue/Licenses)

	Revenue			Licenses			Revenue/License			Y98 US \$ YTD (USD)		
	Actual	Unmet	Variance	Actual	Unmet	Variance	Actual	Unmet	Variance	Actual	Unmet	Variance
Office	309,028	332,071	(28,443)	(8%)	1,408,609	1,498,852	(89,843)	(6%)	217	222	(5)	(2%)
Office Professional	319,119	213,427	105,692	50%	1,722,599	878,951	843,648	154%	185	314	(129)	(41%)
Excel	39,084	62,391	(13,206)	(23%)	400,420	304,245	96,175	32%	96	172	(76)	(43%)
Word	66,001	69,110	7,551	13%	812,068	418,709	393,360	95%	82	142	(60)	(42%)
Powerpoint	6,449	7,859	(1,409)	(18%)	40,808	48,148	(8,290)	(17%)	158	100	(58)	(37%)
Access	29,972	28,898	1,274	4%	222,823	189,539	36,285	19%	135	154	(19)	(15%)
Int'lcd	43,051	46,085	(3,034)	(7%)	148,903	142,028	6,875	5%	290	324	(35)	(11%)
Other Desktop Apps	5,225	1,530	3,695	242%	94,308	27,158	67,152	247%	55	56	(1)	(2%)
Desktop Apps New Users	120,710	74,169	46,541	10%	4,848,318	3,301,328	1,546,992	47%	168	225	(56)	(25%)
Office	75,109	70,872	4,495	6%	421,978	327,432	94,546	29%	178	216	(38)	(17%)
Office Professional	4,223	16,708	(12,485)	(75%)	83,893	201,256	(117,363)	(88%)	66	83	(17)	(20%)
Excel	7,192	18,401	(11,209)	(61%)	99,264	228,846	(128,582)	(57%)	72	81	(9)	(10%)
Word	605	1,814	(1,009)	(63%)	8,900	22,978	(13,078)	(57%)	81	70	(11)	(15%)
Powerpoint	2,018	9,391	(7,373)	(79%)	43,232	121,870	(78,638)	(85%)	47	77	(30)	(39%)
Access	3,178	5,489	(2,310)	(42%)	34,924	56,332	(21,408)	(38%)	91	97	(6)	(7%)
Project	3	23	(20)	(88%)	52	359	(307)	(89%)	53	64	(11)	(14%)
Other Desktop Apps	213,000	203,501	9,595	5%	1,535,304	1,458,301	87,003	5%	140	140	0	0%
Desktop Apps Existing Users	1,028,285	844,870	183,415	9%	6,373,822	4,759,827	1,613,995	34%	181	198	(17)	(8%)
Desktop Apps - Total	8,101	16,997	(8,896)	(52%)	1,023,764	789,898	233,866	34%	8	31	(23)	(73%)
Entertainment	17,854	22,728	(4,874)	(21%)	2,440,553	1,271,884	1,168,669	92%	7	18	(11)	(61%)
Personal Interests	4,755	13,151	(8,396)	(64%)	792,403	766,112	28,291	3%	6	17	(11)	(65%)
Games/Tools	4,520	3,914	708	19%	139,554	92,189	46,365	50%	32	41	(9)	(21%)
Reference	20,864	22,151	(1,286)	(6%)	2,730,598	1,582,959	1,147,637	72%	8	14	(6)	(45%)
Books	317	4,709	(4,392)	(93%)	208,178	143,912	124,268	66%	1	33	(32)	(98%)
Imaging	507	524	(17)	(3%)	470,912	66,710	384,202	443%	1	6	(5)	(80%)
New Business	57,008	84,103	(27,095)	(32%)	7,865,982	4,234,382	3,131,600	68%	7	18	(11)	(61%)
Publisher	10,251	9,147	1,104	12%	595,753	224,882	370,781	185%	17	41	(23)	(56%)
Books	38,333	28,323	10,010	35%	7,083,307	1,937,482	5,145,905	289%	6	15	(9)	(63%)
Education Business	48,584	37,471	11,113	30%	7,819,120	2,187,424	5,151,696	335%	8	17	(11)	(63%)
Keyboards	4,774	32,139	(27,365)	(55%)	117,853	599,707	(481,854)	(90%)	41	64	(23)	(36%)
Mouses/Joystick	60,450	59,400	7,044	12%	4,294,078	4,004,990	289,112	7%	15	15	0	0%
Gaming Devices	14,140	6,881	7,459	12%	318,948	185,448	133,498	72%	44	26	18	69%
Hardware	85,304	98,228	(12,892)	(13%)	4,730,877	4,760,121	(59,244)	(1%)	18	21	(3)	(12%)
Consumer	190,950	219,800	(28,844)	(13%)	20,375,959	11,886,907	8,589,052	73%	9	19	(9)	(50%)
Personal Finance	1,531	1,800	(269)	(18%)	1,080,825	125,911	954,714	75%	1	15	(13)	(90%)
MSN - Health	4,248	4,932	(684)	(14%)	1,927,107	2,481,043	(553,840)	(22%)	0	0	0	0%
MSN - Connectivity	142	8,888	(8,727)	(80%)	1,927,197	2,481,043	(553,840)	(22%)	11	12	(1)	(8%)
MSN - Internet	21,032	30,934	(9,902)	(32%)	28,857,403	19,053,488	10,803,915	56%	43	63	(20)	(32%)
Microsoft Network (MSN)	1,241,804	1,197,264	44,539	4%	1,927,197	2,481,043	(553,840)	(22%)	11	12	(1)	(8%)
Total Apps/Content	1,241,804	1,197,264	44,539	4%	28,857,403	19,053,488	10,803,915	56%	43	63	(20)	(32%)

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Q96-3 MICROSOFT WORLDWIDE REVENUE SUMMARY

Q96-3 MICROSOFT WORLDWIDE REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$ (YTD) (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue
MS-DOS	97,071	110,461	(12,821)	6,127,165	(730,102)	(12%)	18	18	0	644,127	35
Windows, WWV	174,709	132,753	41,856	6,036,503	817,278	10%	26	22	4	2,413,190	47
Windows 95	207,955	444,205	(176,340)	7,053,821	(1,137,395)	(15%)	40	57	(17)	3,730,771	64
MS Plus! (Printing)	4,257	9,839	(5,582)	168,936	243,789	(23%)	23	40	(18)	1,066,759	36
Other PSD (AI Work, Telephony)	8,293	1,231	7,062	668,437	79,820	740%	2	15	(13)	41,963	7
Personal Systems Division	552,004	699,009	(145,725)	19,557,463	20,282,718	(4%)	26	34	(8)	7,796,810	62
Windows NT Workstation	54,627	21,354	33,172	113,995	222,493	(19%)	182	187	(5)	209,215	182
Windows NT Server - Servers	55,819	39,225	16,593	79,740	33,980	43%	481	492	(11)	95,773	514
*Windows NT Server - Users	23,550	12,136	11,417	592,764	650,541	(12%)	19	21	(2)	1,107,149	15
SOL Server - Servers	13,151	11,340	1,805	16,973	2,126	13%	693	673	20	16,731	638
SOL Server - Users	10,244	14,188	(3,954)	112,856	148,072	(24%)	91	98	(7)	131,368	83
*Technician - Servers	10,447	3,843	6,604	8,888	6,860	25%	1,079	1,338	(258)	7,779	1,058
*Technician - Users	15,255	4,424	10,831	2,776	6,960	(43%)	92	142	(50)	200,707	83
*Mail - Servers	7,112	6,331	782	85,592	31,236	430%	301	331	(31)	34,804	268
*Mail - Users	3,470	2,204	1,265	23,652	19,098	45%	22	42	(20)	224,428	19
*Mail - AddOns, Upgrades	11,152	6,908	4,244	158,242	53,087	198%	58	96	(38)	271,698	70
Exchange - Servers	3,134	2,363	771	192,444	72,123	167%	1,748	612	1,136	1,564	1,802
Exchange - Users	456	1,917	(1,461)	8,855	35,989	(73%)	47	53	(6)	8,370	47
*SMS Server - Servers	3,331	2,862	470	6,348	2,243	35%	388	451	(63)	6,324	366
*SMS Server - Users	10,708	4,876	5,831	468,527	150,859	211%	23	32	(9)	614,841	20
*SNA Server - Servers	1,096	1,873	(777)	6,487	6,487	0%	189	284	(125)	15,989	97
*SNA Server - Users	2,767	2,896	(129)	91,507	85,667	6%	30	44	(14)	124,450	28
Other Business Systems	30,352	147,462	(117,110)	3,004,316	78,472	(31%)	574	116	458	8,821	3,616
Business Systems New Users	258,588	147,462	109,126	1,465,278	1,539,088	(10%)	85	101	(16)	3,199,785	78
Windows NT Workstation	8,959	1,430	7,529	45,007	86,428	(19%)	67	32	36	177,272	71
Windows NT Server - Servers	2,800	1,633	1,166	23,263	20,469	2,794	120	80	41	53,087	60
SOL Server - Servers	2,082	1,978	104	7,229	5,791	1,438	289	333	(44)	8,288	230
SOL Server - Users	2,852	1,405	1,307	33,351	36,855	(11%)	41	45	(4)	79,195	38
Exchange - Servers	8	1,065	(1,087)	40	4,695	(89%)	186	381	(183)	1,063	458
Exchange - Users	78	1,234	(1,146)	6,000	36,395	(84%)	13	34	(21)	81,400	257
Other Business Systems	8	474	(465)	163	13,162	(99%)	52	36	16	847	88
Business Systems Existing Users	16,897	9,870	6,927	238,388	158,600	50%	70	82	8	318,427	65
Business Systems - Total	273,295	167,332	115,963	3,242,742	1,874,176	100%	64	97	(33)	3,518,212	77
Visual Basic	42,378	30,454	11,923	188,478	31,885	17%	194	185	(9)	302,822	145
Fox	4,556	10,708	(6,152)	28,784	80,918	(64%)	158	132	26	103,870	170
C++	32,790	43,574	(10,784)	191,001	148,481	29%	172	293	(122)	214,330	148
MSDN	10,040	10,031	9	37,188	24,189	54%	530	415	122	91,153	482
Other Developer Products	10,004	15,120	(3,804)	208,448	71,000	219%	71	213	(142)	84,400	257
Developer	118,008	115,067	2,941	744,785	511,157	46%	159	227	(67)	350,005	184
ACT - Solitaire	7,904	10,339	(2,376)	2,928	1,000	82%	2,722	5,388	(2,647)	1,000	1,000
ACT - Other	952,811	902,107	50,704	23,547,820	22,419,979	5%	40	44	(3)	12,071,887	74
Total Products	2,194,814	2,176,431	18,383	53,205,318	41,413,467	28%	41	53	(11)	25,722,879	90
Total Product Group	18,050	18,034	16	3,043	3,043	0%	8,099	8,099	0	252,342	103
Other (Mkt, Mkt-S, Xent, USZ)	20,708	30,117	(1,329)	2,319,300	2,054,015	17%	12	114	(101)	252,342	103
Recruiting Mkt (Internals)	(125,003)	(30,730)	(85,204)	50,726	28,697	102%	59	53	(6)	25,475,231	85
Recruiting Mkt (Recognized)	2,113,005	2,218,472	(42,767)	55,527,752	41,736,162	33%	39	53	(14)	25,475,231	85
Gross Revenue											

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

A3 - MICROSOFT CONFIDENTIAL

FYTD96 MICROSOFT WORLDWIDE REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY96 USFO YTD(USD)	
	Actual	Unadj	Variance	Actual	Unadj	Variance	Actual	Unadj	Variance	License	Rev/Lic
Office	925,073	950,112	(25,039)	3,870,101	4,332,330	(512,169)	242	219	23	1,488,879	209
Office Professional	800,470	870,142	(320,337)	4,270,418	4,895,407	(2,384,951)	209	302	(94)	1,315,893	213
Excel	150,223	152,770	5,454	1,465,183	823,710	501,473	107	105	(2)	221,785	154
Word	202,550	185,551	17,000	2,140,433	1,350,560	809,873	85	139	(54)	391,085	138
Powerpoint	25,072	25,105	(33)	158,122	158,042	(7,970)	173	159	14	78,185	108
Access	60,531	76,703	(13,700)	675,874	512,148	107,726	133	150	(17)	200,283	148
Project	120,084	120,081	(3)	405,301	402,773	2,528	288	320	(32)	215,165	203
Other Desktop Apps	8,745	5,042	3,703	185,031	86,283	98,748	82	98	(16)	85,287	39
Desktop Apps New Users	2,422,874	2,044,500	320,108	13,137,183	9,831,313	3,505,870	184	217	(33)	4,044,042	197
Office	390,759	248,368	150,391	2,507,441	1,565,381	942,060	158	157	1	1,102,847	147
Office Professional	245,855	189,041	70,015	1,220,001	854,134	368,527	201	199	2	688,172	170
Excel	34,804	55,856	(20,811)	428,823	683,943	(254,120)	81	92	(11)	227,740	74
Word	45,720	70,755	(25,035)	580,518	872,019	(291,501)	79	81	(2)	294,824	75
Powerpoint	4,438	7,031	(2,593)	60,850	90,905	(30,115)	73	73	0	41,539	70
Access	9,733	22,473	(12,740)	148,481	308,322	(157,861)	68	73	(5)	76,852	55
Project	15,004	17,807	(2,803)	144,874	185,309	(40,435)	108	95	12	82,508	103
Other Desktop Apps	8	158	(150)	181	2,001	(1,840)	52	78	(27)	175	55
Desktop Apps Existing Users	752,802	589,947	182,855	5,091,789	4,585,054	528,235	148	129	19	2,505,857	132
Desktop Apps - Total	3,175,478	2,884,513	490,963	18,228,972	14,166,387	4,032,605	174	189	(15)	6,548,899	172
Kids	64,808	62,300	(14,463)	3,184,518	2,249,292	935,224	12	23	(11)	582,887	25
Entertainment	22,220	33,911	(11,691)	5,919,120	3,845,083	2,274,037	11	22	(11)	1,301,222	28
Geo/Travel	17,311	10,578	6,735	2,188,805	1,938,893	349,912	10	18	(8)	284,224	25
Reference	87,028	73,241	(5,813)	459,712	273,784	185,928	38	38	0	251,771	37
Bob	(2,491)	13,407	(15,898)	5,839,037	4,041,011	1,798,028	12	18	(6)	628,306	39
Imaging	2,003	1,898	105	398,984	309,091	29,893	(8)	8	0	(87,018)	47
New Business	208,285	205,104	(5,870)	1,403,517	221,011	1,182,506	1	8	(7)	18,959	9
Publisher	31,827	35,707	(1,840)	19,393,891	12,839,145	6,755,548	11	21	(10)	2,888,151	29
White	116,272	82,079	23,103	1,476,008	156,820	718,048	23	47	(23)	378,778	53
Established Business	152,009	127,000	25,033	11,008,247	5,148,842	6,851,405	10	18	(8)	683,843	35
Keyboards	47,848	78,907	(32,000)	763,983	1,328,483	(564,500)	12	22	(10)	1,080,431	41
Mouse/Flatp	202,241	178,865	28,358	12,815,887	11,423,440	1,392,227	18	15	3	1,579,093	41
Gaming Devices	40,091	20,571	19,521	918,478	571,202	347,274	44	38	6	485,837	43
Hardware	280,100	278,363	13,817	14,288,128	13,333,123	955,005	20	21	(1)	2,394,276	40
Consumer	852,384	889,334	(16,970)	48,280,732	31,875,732	14,391,000	14	21	(7)	6,440,848	37
Personal Finance	11,304	7,849	3,540	2,258,392	607,590	1,651,802	6	13	(7)	180,445	20
MSN - Italia	23,008	20,913	(2,104)	2,855,077	3,748,100	(784,023)	6	6	0	.	.
MSN - Connectivity	7,136	7,483	(317)	.	.	.	.	.	.	.	.
MSN - Financed	742	10,123	(9,061)	.	.	.	.	.	.	.	.
MSN - Internet	.	.	.	.	.	.	.	.	.	.	.
Microsoft Network (MSN)	31,180	46,489	(15,303)	2,855,077	3,748,100	(784,023)	11	12	(1)	.	.
Total Apps/Content	3,870,421	3,408,108	462,230	69,710,173	60,478,788	19,291,384	66	88	(22)	13,161,182	104

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FYTD96 MICROSOFT WORLDWIDE REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 US\$ (YTD) (USD)		
	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Licenses	Revenue	
MS-RTOS	420,002	412,003	7,999	17,769	17,769	0	17	18	(1)	644,127	35	
Windows, VMS	600,015	600,013	2	189,042	189,042	0	23	23	0	2,413,190	47	
Windows 95	1,342,243	1,343,038	(795)	129,205	129,205	0	64	68	(4)	3,230,771	84	
MS Plus (Frosting)	81,005	39,826	41,179	10,439	10,439	0	37	39	(2)	1,066,759	36	
Other PSD (AI Work, Telephony)	17,702	4,390	13,312	1,443	1,443	0	10	10	0	41,963	7	
Personal Systems Division	2,581,577	2,109,960	471,617	391,587	391,587	0	33	33	0	7,783,810	62	
Windows NT Workstation	110,500	40,523	69,977	70,005	70,005	0	172	185	(13)	208,215	102	
Windows NT Server - Servers	140,878	100,613	40,265	40,262	40,262	0	501	493	8	95,773	614	
Windows NT Server - Users	61,207	29,920	31,287	21,347	21,347	0	18	21	(3)	1,167,149	15	
SOL Server - Servers	33,209	28,297	4,912	4,912	4,912	0	681	872	(191)	16,731	638	
SOL Server - Users	27,642	33,137	(5,495)	(5,495)	(5,495)	0	90	96	(6)	131,368	83	
Technical - Servers	27,470	8,272	19,198	25,004	25,004	0	1,110	1,350	(240)	7,778	1,058	
Technical - Users	34,750	9,694	25,056	25,004	25,004	0	88	144	(56)	200,707	83	
Mail - Servers	23,170	19,470	3,700	3,094	3,094	0	311	328	(17)	34,804	286	
Mail - Users	6,561	7,113	(552)	1,489	1,489	0	23	35	(12)	224,428	19	
Mail - AddOns, Upgrades	33,833	21,978	11,855	11,855	11,855	0	1,746	801	945	271,696	70	
Exchange - Servers	3,134	2,470	664	664	664	0	47	53	(6)	1,504	1,802	
Exchange - Users	458	2,101	(1,643)	(1,643)	(1,643)	0	428	455	(27)	8,370	47	
IMS Server - Servers	9,895	7,098	2,797	2,797	2,797	0	23	32	(9)	8,324	388	
IMS Server - Users	25,115	12,755	12,360	12,360	12,360	0	138	294	(156)	614,841	20	
SNA Server - Servers	3,816	5,210	(1,394)	(1,394)	(1,394)	0	31	44	(13)	15,968	97	
SNA Server - Users	7,127	7,064	63	63	63	0	495	119	376	124,450	28	
Other Business Systems	66,903	25,317	41,586	41,586	41,586	0	68	100	(32)	8,821	3,818	
Business Systems New Users	810,807	370,024	440,783	440,783	440,783	0	70	29	41	171,272	71	
Windows NT Workstation	21,135	3,887	17,248	17,248	17,248	0	60	79	(19)	53,087	60	
Windows NT Server - Servers	7,540	5,218	2,322	2,322	2,322	0	278	351	(73)	8,288	230	
SOL Server - Servers	4,895	6,440	(1,545)	(1,545)	(1,545)	0	42	41	1	76,153	38	
SOL Server - Users	6,872	6,348	524	524	524	0	188	338	(150)	-	-	
Exchange - Servers	6	1,711	(1,705)	(1,705)	(1,705)	0	65	45	20	-	-	
Exchange - Users	70	1,245	(1,175)	(1,175)	(1,175)	0	71	61	10	847	88	
Other Business Systems	39,305	24,561	14,744	14,744	14,744	0	87	96	(9)	318,427	65	
Business Systems - Total	658,302	304,605	353,697	353,697	353,697	0	168	175	(7)	3,518,212	77	
Visual Basic	119,872	83,410	36,462	36,462	36,462	0	184	144	40	302,822	145	
Fort	34,121	43,538	(9,417)	(9,417)	(9,417)	0	197	248	(51)	103,870	170	
C++	78,300	83,105	(4,805)	(4,805)	(4,805)	0	498	413	85	214,320	148	
MSDN	44,338	31,039	13,299	13,299	13,299	0	73	217	(144)	51,153	482	
Other Developer Products	45,873	47,034	(1,161)	(1,161)	(1,161)	0	168	205	(37)	84,400	257	
Developer	310,813	288,123	22,690	22,690	22,690	0	3,230	5,492	(2,262)	765,005	184	
ACT - Software	20,143	20,051	92	(92)	(92)	0	41	40	1	-	-	
ACT - Other	3,587,835	2,001,770	1,586,065	1,586,065	1,586,065	0	47	52	(5)	12,071,087	74	
Total/Marketing	7,427,950	6,269,955	1,157,995	1,157,995	1,157,995	0	22,805	-	-	23,232,878	80	
Total/Market Group	68,780	47,250	21,530	21,530	21,530	0	10	70	(60)	252,342	105	
Other (Mem, MCB, Xenix, OS/2)	131,071	84,804	46,267	46,267	46,267	0	-	-	-	-	-	
Recurring Mkt (deferrals)	(312,333)	(115,990)	(196,343)	(196,343)	(196,343)	0	-	-	-	-	-	
Recurring Mkt (recognized)	145,241	80,352	64,889	64,889	64,889	0	40	52	(12)	-	-	
Gross Revenue	7,460,221	6,368,551	1,091,670	1,091,670	1,091,670	0	-	-	-	25,476,221	80	

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

A6 - MICROSOFT CONFIDENTIAL

Q96-3 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			Y88 USFO YTD (USD)				
	Actual	Budget	Variance	Actual	Undrl	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue
Office	100,466	113,186	(12,700)	556,622	483,919	64,703	13%	180	229	(49)	20%	1,486,578	209	1,486,578
Office Professional	94,812	60,652	33,860	499,843	225,808	273,237	121%	189	288	(79)	20%	1,316,693	213	1,316,693
Excel	6,344	13,925	(6,161)	42,802	93,118	(50,216)	(54%)	125	145	(20)	(14%)	221,785	154	221,785
Word	15,135	20,448	(5,311)	141,814	160,098	(18,274)	(11%)	107	128	(21)	(16%)	391,085	136	391,085
Powerpoint	3,203	4,819	(1,616)	21,237	(6,448)	(24%)	(24%)	154	147	7	5%	76,185	169	76,185
Access	11,217	9,739	1,478	72,870	66,201	6,669	5%	154	141	13	9%	200,283	148	200,283
Project	23,048	21,202	1,756	79,753	87,453	(7,700)	16%	289	316	(27)	(8%)	215,185	293	215,185
Other Desktop Apps	803	723	160	31,135	13,775	17,360	126%	28	52	(24)	(46%)	95,287	39	95,287
Desktop Apps New Users	253,831	243,584	10,246	1,448,787	1,150,437	298,330	26%	175	212	(36)	(17%)	4,044,042	197	4,044,042
Office	60,853	25,181	25,602	393,200	182,598	200,604	104%	129	131	(2)	(1%)	1,102,847	147	1,102,847
Office Professional	34,000	11,308	22,499	224,184	87,673	136,491	156%	155	128	26	20%	688,172	170	688,172
Excel	640	2,993	(2,353)	14,032	48,902	(34,870)	(71%)	48	81	(33)	(40%)	227,740	74	227,740
Word	1,807	4,024	(2,157)	31,081	61,781	(30,680)	(50%)	60	85	(25)	(29%)	294,924	75	294,924
Powerpoint	207	607	(401)	4,084	11,582	(7,488)	(65%)	51	52	(1)	(2%)	41,539	70	41,539
Access	(212)	1,033	(1,245)	21,223	31,870	(10,347)	(33%)	(5)	33	(38)	(114%)	76,952	55	76,952
Project	1,287	2,788	(1,480)	14,907	34,508	(19,599)	(57%)	86	80	6	8%	82,508	103	82,508
Other Desktop Apps	3	21	(18)	53	295	(242)	(82%)	55	72	(17)	(24%)	175	55	175
Desktop Apps Existing Users	89,451	47,945	41,506	702,754	488,865	233,889	50%	127	102	25	24%	2,505,857	132	2,505,857
Desktop Apps - Total	393,282	291,530	101,752	2,149,531	1,618,332	530,199	33%	160	180	(20)	(11%)	6,548,699	172	6,548,699
Books	2,692	7,516	(4,824)	148,338	288,648	(120,412)	(45%)	20	28	(8)	(29%)	62,887	25	62,887
Entertainment	10,644	12,294	(1,650)	436,976	395,867	41,109	10%	24	31	(7)	(22%)	1,301,222	28	1,301,222
Personal Interests	1,185	7,259	(6,074)	58,815	282,863	(224,188)	(78%)	20	28	(8)	(28%)	284,324	25	284,324
Geo/Travel	1,485	2,182	(676)	49,589	59,867	(10,288)	(17%)	30	36	(6)	(17%)	251,771	37	251,771
Reference	5,114	9,937	(4,823)	189,541	287,574	(98,033)	(37%)	30	37	(7)	(19%)	626,308	39	626,308
Bob	(1,058)	4,231	(5,289)	(20,028)	58,803	(78,831)	(144%)	(7)	72	(65)	(917%)	(87,018)	47	(87,018)
Imaging	(35)	201	(236)	449	10,878	(10,429)	(90%)	(7)	16	(9)	(127%)	16,959	9	16,959
New Business	20,207	43,600	(23,393)	837,558	1,324,500	(486,942)	(37%)	24	33	(9)	(27%)	2,868,151	20	2,868,151
Publisher	4,528	4,448	79	85,045	87,848	(2,797)	40%	46	68	(22)	(32%)	378,778	53	378,778
Works	2,428	6,478	(4,040)	121,702	144,008	(22,304)	(15%)	20	45	(25)	(56%)	683,643	35	683,643
Established Business	6,937	10,927	(3,989)	216,747	211,054	5,693	2%	32	52	(20)	(38%)	1,000,421	41	1,000,421
Keyboards	(1,031)	17,140	(18,176)	(6,103)	228,548	(234,741)	(103%)	187	75	112	133%	378,548	74	378,548
Mouse/Trackpoint	20,777	22,335	(1,558)	482,387	558,887	(76,500)	(14%)	43	40	3	8%	1,578,093	41	1,578,093
Gaming Devices	7,078	4,190	2,888	175,803	110,911	64,892	58%	44	38	6	16%	483,637	43	483,637
Hardware	27,417	43,871	(16,254)	651,787	888,440	(236,649)	(27%)	42	49	(7)	(15%)	2,394,278	49	2,394,278
Consumer	84,801	98,108	(13,301)	1,708,102	2,434,000	(725,898)	(30%)	32	40	(8)	(21%)	6,440,848	37	6,440,848
Personal Finance	(810)	814	(4)	(22,438)	90,787	(113,205)	(125%)	28	8	20	201%	100,445	20	100,445
MSN - Basic														
MSN - Connectivity														
MSN - Extended														
MSN - Internet														
Microsoft Network (MSN)														
Total Apps/Content	397,240	390,642	6,704	3,833,195	4,144,889	(311,504)	(6%)	104	94	10	10%	13,151,192	104	13,151,192

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APPENDIX - Q96-3 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

Q96-3

Q96-3 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			Revenue/License			Revenue/License		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
MS-DOS	6,133	1,734	4,398	265%	178,548	47,838	128,608	266%	35	38	3	1	38	35	544,127
Windows, WWW	30,000	5,142	24,858	614%	760,873	110,243	650,630	590%	48	47	1	2	47	47	2,413,190
Windows 95	(45,014)	83,400	(128,414)	(149%)	(440,171)	1,100,271	(1,540,442)	(140%)	102	85	17	20%	84	84	3,230,771
MS Print (Printing)	(1,004)	4,055	(5,059)	(124%)	(15,545)	100,085	(112,240)	(115%)	107	58	49	82%	30	30	1,060,759
Other PRT (AI Work, Telephony)	218	20	198	1000%	40,862	370	40,492	10944%	7	5	2	(60%)	7	7	41,903
Personal Systems Division	(33,38)	104,411	(137,792)	(132%)	522,505	1,385,517	(862,932)	(62%)	17	78	61	(108%)	82	82	7,798,810
Windows NT Workstation	19,343	7,388	11,955	162%	111,259	34,732	76,527	220%	174	213	38	(18%)	182	182	268,215
Windows NT Server - Servers	19,702	12,449	7,253	59%	39,297	25,840	13,457	48%	617	482	135	7%	514	514	85,773
Windows NT Server - Users	7,451	3,115	4,337	139%	468,948	175,017	293,931	170%	15	15	0	(14%)	15	15	1,187,149
SQL Server - Servers	3,470	3,954	(484)	(12%)	5,973	6,000	(27)	(2%)	691	649	42	(10%)	636	636	16,731
SQL Server - Users	3,824	5,181	(1,357)	(28%)	43,877	84,319	(40,442)	(48%)	87	95	8	(8%)	83	83	131,368
Tracoll - Servers	2,440	848	1,592	188%	2,088	708	1,380	195%	1,170	1,198	28	(2%)	1058	1058	7,779
Tracoll - Users	6,268	1,327	4,941	372%	73,183	10,374	62,809	605%	88	128	40	(33%)	83	83	200,707
Mail - Servers	2,807	2,025	782	39%	11,121	8,590	2,531	29%	258	308	50	(16%)	268	268	34,804
Mail - Users	1,917	411	1,506	366%	10,142	15,825	(5,683)	(36%)	18	28	10	(7)	19	19	224,420
Mail - AddOns, Upgrades	6,841	4,478	2,363	53%	83,023	51,135	31,888	64%	68	88	20	(24%)	70	70	271,898
Exchange - Servers	2,800	1,270	1,530	121%	1,035	10,658	(9,623)	(90%)	47	54	7	(13%)	47	47	8,370
Exchange - Users	412	588	(176)	(30%)	6,685	10,858	(4,173)	(38%)	298	460	162	(35%)	308	308	6,324
SMS Server - Servers	489	1,008	(519)	(52%)	1,653	2,180	(527)	(24%)	20	29	9	(31%)	20	20	614,841
SMS Server - Users	4,832	2,042	2,790	137%	248,938	69,938	178,999	253%	183	282	99	(35%)	97	97	15,889
SNA Server - Servers	1,308	1,531	(223)	(15%)	50,308	35,437	14,871	42%	27	43	16	(37%)	28	28	124,450
SNA Server - Users	18,014	4,182	13,832	331%	4,315	31,691	(27,376)	(87%)	4,418	132	4,286	3246%	8,021	8,021	3,198,785
Other Business Systems	102,025	53,402	48,623	91%	1,275,343	537,862	737,481	137%	80	99	19	(19%)	78	78	177,272
Business Systems New Users	4,877	581	4,296	739%	61,428	16,503	44,925	272%	68	35	33	94%	60	60	83,087
Windows NT Workstation	1,224	873	350	40%	12,319	7,327	4,992	68%	99	92	7	8%	7	7	6,266
Windows NT Server - Servers	475	578	(103)	(18%)	1,848	1,252	596	47%	30	34	4	(12%)	30	30	78,155
Windows NT Server - Users	1,126	354	772	218%	37,812	10,513	27,299	260%	30	34	4	(12%)	30	30	78,155
Exchange - Servers	1	1,113	(1,112)	(100%)	3,172	3,172	0	(0%)	351	351	0	(0%)	351	351	1,113
Exchange - Users	1	514	(513)	(100%)	19,041	19,041	0	(0%)	140	27	113	(82%)	27	27	847
Other Business Systems	7,503	3,814	3,689	97%	120,412	58,308	62,104	107%	92	65	27	(29%)	65	65	318,227
Business Systems Existing Users	109,528	67,210	42,318	63%	1,392,955	598,170	794,785	134%	78	98	20	(18%)	77	77	3,518,212
Visual Basic	1,800	8,708	(6,908)	(80%)	85,143	55,382	29,761	54%	130	158	28	(18%)	145	145	302,922
Fox	1,080	3,973	(2,893)	(73%)	14,883	38,247	(23,364)	(61%)	134	110	24	22%	170	170	103,870
C++	9,732	10,484	(752)	(7%)	103,521	53,858	49,663	92%	94	195	(101)	(52%)	148	148	214,320
MSDN	10,632	5,880	4,752	89%	20,741	14,305	6,436	45%	508	390	118	30%	482	482	51,153
Other Developer Products	7,988	8,714	(726)	(8%)	28,393	43,053	(14,660)	(34%)	281	202	79	39%	257	257	84,400
Developer	41,821	37,570	4,251	11%	250,681	202,843	47,838	24%	183	185	(2)	(1%)	184	184	758,005
AC1 - Rollings	1	1	0	0%	1	1	0	0%	1	1	0	0%	1	1	1
AC1 - Other	147,711	199,147	(51,436)	(26%)	2,175,201	2,104,530	70,671	3%	88	92	(4)	(5%)	84	84	12,071,087
Total Products	544,357	508,088	36,269	7%	8,008,388	8,308,219	(299,831)	(4%)	81	83	(2)	(2%)	80	80	25,327,879
Press	6,602	11,703	(5,101)	(44%)	39,703	3,413	36,290	1063%	165	3,455	(3,290)	(95%)	105	105	252,342
Recording Mkt (Teleph)	(74,320)	(18,939)	(55,381)	(292%)	32,033	12,107	19,926	63%	84	95	(11)	(11%)	85	85	26,475,241
Recording Mkt (reciprocal)	210,125	600,048	(389,923)	(18%)	0,048,000	0,312,812	(264,812)	(84%)	84	95	(11)	(11%)	85	85	26,475,241

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

FYTD96 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FYTD96 FYTD (USD)		
	Actual	Budget	Variance	Actual	Enduse	Variance	Actual	Usage	Variance	Licenses	Revenue	
			Var. %									
Office	344,745	384,950	(40,214)	(10%)	1,643,875	1,879,286	(235,411)	(14%)	210	228	1,498,579	209
Office Professional	302,764	210,827	93,157	39%	1,433,190	816,663	616,527	76%	311	269	1,315,893	213
Excel	37,000	47,503	(9,925)	(21%)	253,120	372,507	(119,387)	(32%)	149	145	221,765	154
Word	56,105	72,200	(16,095)	(20%)	435,924	508,105	(72,181)	(14%)	133	128	391,005	130
Powerpoint	14,046	14,060	(14)	(0%)	83,596	95,537	(11,941)	(12%)	168	147	78,185	169
Access	41,577	33,477	8,100	24%	281,765	237,744	44,021	19%	148	141	260,263	148
Project	67,803	76,290	(8,487)	(11%)	232,304	241,272	(8,968)	(4%)	282	318	215,105	283
Other Desktop Apps	2,768	2,403	365	12%	69,349	49,008	20,341	42%	40	50	65,287	39
Desktop Apps New Users	809,578	850,760	(41,182)	(5%)	4,433,123	4,013,164	419,959	10%	190	212	4,044,042	197
Office	184,039	107,188	77,452	72%	1,266,092	783,804	482,288	61%	146	137	1,192,847	147
Office Professional	104,001	48,528	55,534	114%	612,177	356,750	255,427	72%	170	136	588,172	170
Excel	17,252	21,507	(4,215)	(20%)	233,523	302,119	(68,596)	(23%)	74	71	227,740	74
Word	22,704	30,273	(7,569)	(25%)	300,088	407,317	(107,229)	(28%)	75	74	294,924	75
Powerpoint	2,951	4,136	(1,185)	(29%)	42,132	64,320	(22,188)	(53%)	70	64	41,539	70
Access	3,402	4,702	(1,300)	(28%)	78,571	122,190	(43,619)	(36%)	43	38	78,952	55
Project	9,072	9,890	(818)	(8%)	89,008	123,078	(34,070)	(28%)	103	80	82,509	103
Other Desktop Apps	10	57	(47)	(87%)	180	793	(613)	(77%)	55	72	175	55
Desktop Apps Existing Users	344,091	228,339	117,752	52%	2,628,877	2,180,317	448,560	22%	131	105	2,505,857	132
Desktop Apps - Total	1,213,870	1,077,125	136,745	13%	7,059,900	6,173,541	886,359	14%	172	174	6,549,899	172
Video	16,152	26,550	(10,397)	(39%)	642,363	961,318	(318,955)	(33%)	25	28	592,687	25
Entertainment	35,819	47,049	(11,420)	(24%)	1,366,278	1,468,986	(102,708)	(8%)	28	32	1,301,222	28
Personal Interests	7,791	15,840	(8,049)	(51%)	313,388	599,561	(286,173)	(46%)	25	26	284,224	25
Gift/Travel	9,778	9,939	(161)	(2%)	284,637	173,155	111,482	53%	37	34	251,771	37
Reference	25,888	38,630	(12,742)	(33%)	675,978	1,041,198	(365,220)	(35%)	38	37	628,308	39
Bob	(5,099)	11,897	(16,996)	(143%)	(103,265)	173,038	(276,303)	(159%)	49	69	(97,018)	47
Inviting	139	500	(361)	(72%)	19,868	30,266	(10,398)	(48%)	8	19	18,959	8
New Business	94,208	148,405	(54,197)	(37%)	3,175,292	4,400,342	(1,225,050)	(28%)	28	33	2,960,151	29
Publishing	20,005	21,310	(1,305)	(6%)	308,455	319,502	(11,047)	(3%)	63	67	376,778	63
Works	25,331	27,539	(2,207)	(8%)	723,008	812,290	(89,282)	(10%)	35	45	663,043	35
Established Business	40,310	48,852	(8,542)	(17%)	1,121,543	931,788	189,755	20%	41	62	1,060,421	41
Keyboards	20,250	47,080	(26,830)	(57%)	355,035	635,945	(280,910)	(44%)	74	75	329,548	74
Mouse/Modem	9,703	92,950	(83,247)	(85%)	1,680,471	1,575,604	104,867	7%	41	40	1,579,093	41
Printing Devices	23,255	14,705	8,400	57%	535,027	390,440	144,587	37%	48	38	485,837	48
Hardware	119,214	125,395	(6,181)	(5%)	2,570,533	2,802,149	(231,616)	(9%)	46	48	2,391,270	46
Consumer	255,768	320,712	(64,944)	(20%)	6,887,368	8,000,289	(1,112,921)	(14%)	37	40	6,440,848	37
Personal Finance	3,200	4,439	(1,242)	(28%)	180,432	483,950	(303,518)	(63%)	20	8	180,445	20
MSN - Retail												
MSN - Channelability												
MSN - Franchised												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Content	1,472,704	1,402,275	70,429	5%	14,093,600	14,607,780	(514,180)	(4%)	104	98	13,151,192	104

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MS-PCA 1192473 CONFIDENTIAL

APPENDIX - FYTD96 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY (continued)

	Revenue			Licenses			Revenue / License			FYTD96 YTD USD			
	Actual	Unadvt	Variance	Actual	Unadvt	Variance	Actual	Unadvt	Variance	Licenses	Revenue		
MS-DOS	19,005	14,221	250%	508,027	158,728	411,298	282%	35	38	(1)	3%	844,127	35
Windows, WWV	118,725	16,348	633%	2,008,906	350,227	2,258,678	645%	48	47	(1)	(2%)	2,413,180	47
Windows 95	343,178	493,959	(150,821) (31%)	4,043,947	5,818,571	(1,772,624)	(20%)	85	85	(0)	(0%)	3,750,771	84
MS Front (Printing)	41,973	21,083	91%	1,151,897	578,352	573,545	89%	38	38	(0)	(4%)	1,068,759	38
Other (MSB (AI Work, Telephony))	330	63	263	46,169	994	45,195	4547%	7	53	(46)	(88%)	41,903	7
Personal Systems Division	525,117	530,086	(12,940) (2%)	8,418,768	8,002,873	1,515,893	21%	62	78	(16)	(20%)	7,796,810	62
Windows NT Workstation	52,403	16,453	34,010	280,870	80,569	200,301	231%	183	213	(30)	(14%)	289,215	182
Windows NT Server - Servers	53,800	31,199	22,601	105,553	64,423	41,130	64%	610	484	26	5%	85,773	514
Windows NT Server - Users	19,832	7,020	12,200	1,288,514	425,228	863,286	203%	15	18	(3)	(14%)	1,167,149	15
SQL Server - Servers	11,424	10,851	672	17,919	18,046	(1,873)	12%	638	658	(20)	(3%)	16,731	638
SQL Server - Users	11,733	12,072	(630) (7%)	140,404	131,584	8,820	7%	84	96	(12)	(13%)	131,386	83
Workoffice - Servers	9,100	2,002	7,099	8,441	1,701	6,740	395%	1,078	1,230	(152)	(12%)	7,779	1,058
Workoffice - Users	17,711	3,008	14,705	21,495	22,421	(8,421)	643%	64	134	(70)	(50%)	200,707	83
Mail - Servers	10,233	8,310	1,923	38,445	27,155	11,290	42%	266	308	(40)	(13%)	34,804	266
Mail - Users	4,584	2,020	1,957	242,722	100,400	142,322	142%	19	28	(7)	(28%)	254,428	19
Mail - AddOns, Upgrades	20,815	13,420	7,195	291,172	144,775	146,397	101%	71	93	(22)	(24%)	271,996	70
Exchange - Servers	2,890	1,278	1,612	8,685	10,888	(2,213)	(20%)	1,772	701	1,070	153%	1,564	1,802
Exchange - Users	412	688	(276)	7,091	6,451	640	10%	378	480	(82)	(18%)	8,370	47
SMS Server - Servers	2,862	2,868	(6)	658,039	204,778	453,261	221%	20	29	(9)	(30%)	814,841	20
SMS Server - Users	13,419	6,005	7,414	16,227	10,748	5,479	51%	99	283	(184)	(85%)	15,969	97
SNA Server - Servers	1,808	3,038	(1,430) (47%)	127,307	85,900	41,807	49%	28	43	(15)	(36%)	124,450	28
SNA Server - Users	3,531	3,890	(359) (10%)	75,216	(95,419)	(170,635)	(87%)	3,437	144	3,293	2284%	8,821	3,819
Other Business Systems	208,705	138,304	111,431	3,480,318	1,415,712	2,064,606	144%	78	98	(20)	(20%)	3,199,785	78
Business Systems New Users	13,139	2,297	10,842	78,394	105,817	(27,423)	(13%)	71	29	42	143%	177,272	71
Windows NT Workstation	3,500	2,789	762	57,877	36,481	21,396	58%	62	77	(15)	(20%)	53,097	60
Windows NT Server - Servers	2,090	4,048	(1,952) (48%)	8,875	11,538	(2,663)	(23%)	236	351	(115)	(33%)	8,266	230
SQL Server - Servers	2,817	3,042	(125) (4%)	81,585	84,389	(2,784)	(3%)	36	38	(2)	(1%)	78,155	36
Exchange - Servers		1,113	(1,113) (100%)		3,172	(3,172)	(100%)		351	(351)	(100%)		
Exchange - Users		514	(514) (100%)		19,041	(19,041)	(100%)		27	(27)	(100%)		
Other Business Systems	58		58	808		808		87		87		847	88
Business Systems Existing Users	21,770	13,812	7,958	333,024	232,805	100,219	43%	65	59	6	10%	318,427	65
Business Systems - Total	281,505	152,176	130,389	3,793,340	1,848,617	2,144,723	130%	77	92	(15)	(17%)	3,518,212	77
Virtual Basic	47,778	35,309	12,380	330,104	224,689	105,415	47%	145	158	(13)	(8%)	302,922	145
Fox	18,841	23,030	(4,189) (18%)	111,228	171,530	(60,302)	(34%)	169	137	32	23%	103,870	170
C++	33,350	33,003	287	222,990	171,314	51,676	30%	150	193	(43)	(23%)	214,320	148
MSJIN	20,134	16,409	7,005	54,100	47,107	6,993	15%	483	392	91	23%	61,153	482
Other Developer Products	149,180	27,008	(4,009) (17%)	89,848	132,743	(43,095)	(32%)	257	209	48	23%	84,400	257
Developer		137,030	11,540	608,078	743,393	(94,863)	(9%)	185	185	(1)	(0%)	758,865	184
ACT - Software													
ACT - Other	943,000	827,081	137,917	13,070,162	9,204,873	3,775,289	40%	74	89	(15)	(17%)	12,071,887	74
Total Products	2,430,032	2,290,160	208,470	21,113,762	23,902,053	3,151,129	13%	90	93	(3)	(3%)	25,222,879	90
Other (Man, MFS, Xenix, OS2)	20,146	35,116	(6,071) (20%)	200,234	9,978	250,258	2500%	106	3,620	(3,412)	(97%)	252,342	105
Recurring Mini (deferrals)	(200,278)	(80,236)	(140,042)										
Recurring Mini (recognized)	87,205	47,553	39,672										
Gross Revenue	2,353,700	2,252,571	101,135	21,374,016	23,972,629	3,401,387	14%	80	84	(4)	(8%)	25,475,221	80

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

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Q96-3 EUROPE FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY90 USFO YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance		
Office Professional	131,433	111,659	19,774	18%	448,758	377,788	68,972	18%	284	288	(4)	1,498,879	209	
Office Excel	85,001	70,706	14,295	20%	260,627	204,380	56,187	27%	328	346	(18)	1,315,893	213	
Office Word	12,834	19,478	(6,645)	(29%)	77,855	110,304	(32,449)	(30%)	178	177	1	221,785	154	
Powerpoint	2,170	2,247	(77)	(3%)	126,513	163,940	(37,427)	(23%)	160	173	(13)	391,085	109	
Access	8,506	8,714	(208)	(2%)	11,011	11,253	(242)	(2%)	198	200	(2)	78,185	148	
Project	14,395	11,613	2,882	25%	39,313	48,799	(9,486)	(19%)	218	179	39	260,283	148	
Other Desktop Apps	4,100	608	3,492	500%	42,605	33,851	8,754	26%	328	340	(12)	215,185	293	
Desktop Apps New Users	280,922	253,418	27,503	11%	1,054,518	983,177	71,342	9%	268	283	(15)	4,044,042	197	
Office Professional	63,287	34,957	28,330	52%	327,900	186,037	141,863	76%	182	187	(5)	1,182,847	147	
Office Excel	29,056	29,513	(457)	(2%)	128,008	112,812	15,197	14%	230	253	(23)	688,172	170	
Office Word	3,233	8,878	(5,645)	(64%)	44,151	91,085	(46,934)	(52%)	73	97	(24)	227,740	74	
Powerpoint	4,982	11,451	(6,469)	(57%)	61,193	125,428	(64,235)	(51%)	81	91	(10)	294,924	75	
Access	341	732	(391)	(53%)	4,894	7,368	(2,472)	(34%)	70	90	(20)	41,539	70	
Project	1,730	4,186	(2,452)	(59%)	18,258	41,648	(23,388)	(56%)	95	101	(6)	78,852	55	
Other Desktop Apps	1,453	2,281	(828)	(36%)	15,023	16,464	(1,441)	(9%)	97	137	(40)	82,508	103	
Desktop Apps Existing Users	94,008	90,980	3,028	4%	800,148	681,502	118,646	3%	159	156	3	2,505,837	132	
Desktop Apps - Total	375,930	344,398	31,532	9%	1,854,667	1,544,679	309,988	7%	237	223	14	6,549,879	172	
Video	1,186	3,708	(2,522)	(68%)	36,377	102,581	(66,204)	(65%)	30	34	(4)	592,687	25	
Entertainment	1,184	4,038	(2,854)	(70%)	57,413	121,728	(64,315)	(53%)	21	33	(12)	1,301,222	28	
Personal Interests	617	2,506	(1,889)	(75%)	24,532	72,936	(48,404)	(66%)	25	34	(9)	284,224	25	
Geo/Travel	2,517	1,312	1,205	92%	43,395	23,740	19,655	89%	66	61	5	251,771	37	
Reference	4,708	3,053	1,655	54%	106,380	35,133	71,247	203%	45	87	(42)	826,308	39	
Books	(1)	21	(20)	(100%)	(4)	287	(281)	(101%)	156	72	84	(84)	(87,018)	47
Imaging	28	143	(115)	(80%)	1,816	9,302	(7,486)	(79%)	15	15	0	18,959	9	
New Business	10,288	14,778	(4,490)	(30%)	271,989	387,814	(115,825)	(28%)	38	40	(2)	2,988,151	28	
Publisher	2,070	2,084	(14)	(1%)	41,814	63,147	(21,333)	(34%)	82	84	(2)	376,778	63	
Books	4,841	7,733	(2,892)	(37%)	89,310	131,407	(42,097)	(32%)	84	99	(15)	893,843	35	
Established Business	7,420	10,897	(3,477)	(31%)	131,174	188,554	(57,380)	(30%)	57	57	0	1,960,421	41	
Keyboards	802	3,864	(3,062)	(77%)	13,981	53,809	(39,828)	(74%)	43	72	(29)	328,548	74	
Mouse/Joystick	5,858	7,405	(1,547)	(21%)	186,288	208,984	(22,696)	(11%)	35	35	0	1,579,093	41	
Printing Devices	3,005	1,300	1,705	131%	86,327	41,130	45,197	110%	45	32	13	485,837	43	
Hardware	10,355	12,509	(2,154)	(17%)	208,500	303,973	(95,473)	(32%)	39	41	(2)	2,394,210	48	
Consumer	28,001	38,005	(10,004)	(26%)	609,709	858,201	(248,492)	(29%)	42	44	(2)	8,440,848	37	
Personal Finance	538	973	(435)	(45%)	20,881	31,419	(10,538)	(34%)	26	31	(5)	180,443	20	
MSN - Basic														
MSN - Connectivity														
MSN - Internet														
Microsoft Network (MSN)														
Total Apps/Content	404,100	383,437	20,663	5%	2,345,257	2,434,389	(89,132)	(4%)	172	158	14	13,151,192	104	

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APPENDIX - Q96-3 EUROPE FINISHED GOODS REVENUE SUMMARY

Q96-3

Q96-3 EUROPE FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 US\$0 YTD (USD)		
	Actual	Unadj	Variance	Actual	Unadj	Variance	Actual	Unadj	Variance	Licenses	Inv/Lic	
			Var %			Var %			Var %			
MS-DOS	3,635	628	2,907	83,935	476%	35	35	0	0%	544,521	35	
Windows, NT	15,013	2,428	12,585	271,775	608%	47	64	17	36%	2,413,190	47	
Windows 95	(48,360)	78,032	(127,421)	(1,339,062)	(150%)	109	86	23	20%	3,730,371	84	
MS Print (floating)	209	2,008	(2,078)	72,554	(33)	6	41	35	(605%)	1,066,768	36	
Other P&D (AI Work, Telephony)	846	10	836	152	31,861	20,901%	20	63	(39)	41,903	7	
Personal Systems Division	(29,705)	64,060	(113,772)	(1,009,230)	(87%)	(929)	81	(1,010)	(1350%)	7,708,810	62	
Windows NT Workstation	18,227	6,855	11,371	66,339	219%	189	228	(39)	(17%)	289,215	182	
Windows NT Server - Servers	15,558	13,145	2,413	23,982	5,678	24%	525	548	(24)	(4%)	95,773	514
Windows NT Server - Users	6,550	5,074	1,476	115,151	48%	24	24	0	0%	1,187,140	15	
RUI Server - Servers	2,120	2,739	(619)	3,070	(762)	(21%)	728	748	(17)	(2%)	18,731	636
RUI Server - Users	1,300	3,016	(2,427)	34,409	(23,710)	(69%)	129	111	18	16%	131,368	83
Dispatch - Servers	3,002	2,044	958	1,709	1,709	122%	1,218	1,385	(169)	(12%)	7,778	1,029
Dispatch - Users	4,948	2,194	2,754	14,874	31,978	218%	108	150	(43)	(29%)	200,707	83
Mail - Servers	2,397	1,504	893	6,728	4,318	2,410	358	348	10	3%	34,904	268
Mail - Users	745	327	418	6,982	16,331	235%	32	47	(15)	(32%)	224,428	19
Mail - AddOns, Upgrades	3,023	1,441	1,582	14,725	73,818	500%	44	98	(55)	(55%)	271,898	70
Exchange - Servers	100	1,013	(913)	1,811	(1,898)	(64%)	1,731	559	1,172	209%	1,504	1,802
Exchange - Users	6	1,012	(1,006)	19,362	(19,277)	(100%)	87	52	35	29%	8,370	47
SMS Server - Servers	793	878	(85)	1,781	488	27%	348	490	(142)	(29%)	6,324	388
SMS Server - Users	3,235	1,848	1,386	69,428	145%	28	34	(7)	(20%)	614,841	20	
SNA Server - Servers	282	513	(230)	1,068	(617)	(38%)	257	209	48	(14%)	15,989	97
SNA Server - Users	1,002	854	148	18,846	9,821	52%	35	45	(10)	(23%)	124,450	28
Other Business Systems	3,639	2,635	1,004	25,500	(20,532)	(81%)	733	103	630	609%	3,199,765	78
Business Systems New Users	70,999	48,294	22,706	491,285	328,437	68%	87	98	(11)	(12%)	3,199,765	78
Windows NT Workstation	3,178	248	2,930	10,300	34,156	331%	71	24	48	188%	177,272	71
Windows NT Server - Servers	682	503	179	7,188	(118)	(2%)	125	78	48	56%	63,067	60
RUI Server - Servers	407	304	103	824	828	97%	201	303	(102)	(29%)	8,266	230
SUL Server - Users	994	807	187	10,361	7,489	72%	58	49	9	14%	78,155	36
Exchange - Servers	-	553	(553)	1,359	(1,359)	(100%)	-	407	(407)	(100%)	-	-
Exchange - Users	-	618	(618)	14,892	(14,892)	(100%)	-	42	(42)	(100%)	-	-
Other Business Systems	3	162	(159)	2,364	(2,271)	(96%)	37	88	(51)	(48%)	647	88
Business Systems Existing Users	5,465	3,013	2,451	70,930	47,397	50%	77	64	13	21%	318,427	85
Business Systems - Total	76,464	51,307	25,157	488,652	349,970	65%	88	95	(7)	(10%)	3,518,212	77
Visual Basic	8,768	6,032	2,736	36,378	(4,897)	(12%)	241	188	53	44%	302,922	145
Fox	1,114	3,535	(2,421)	21,324	(16,001)	(76%)	217	197	20	30%	103,870	170
C++	6,348	6,812	(464)	23,247	(2,277)	(9%)	273	218	55	26%	214,320	148
MSDN	6,510	2,830	3,680	6,204	2,462	38%	748	420	328	78%	81,153	482
Other Developer Products	6,743	5,038	1,705	22,781	20,979	92%	298	240	58	23%	84,400	257
Perseus	30,484	23,847	6,637	118,100	(18,911)	(16%)	308	203	105	46%	780,003	184
ACT - Rollinings	-	-	-	-	-	-	-	-	-	-	-	-
ACT - Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Platforms	76,242	108,020	(31,778)	1,095,000	(618,171)	(40%)	75	94	(19)	(20%)	12,071,897	74
Total Product Group	480,432	542,457	(62,025)	4,128,449	(707,303)	(19%)	143	131	12	8%	25,222,879	80
Press	6,716	9,880	(3,164)	45,843	45,843	100%	147	-	-	-	292,342	105
(Other (Mkt, M'L), Kevle, (US))	(34,000)	(10,000)	(24,000)	-	-	-	-	-	-	-	-	-
(Including Mkt (deferrals))	10,145	8,798	1,347	-	-	-	-	-	-	-	-	-
(Including Mkt (recognized))	408,004	643,055	(235,051)	3,407,606	(2,717,600)	(17%)	137	132	5	5%	25,475,321	86
Gross Revenue												

A11 - MICROSOFT CONFIDENTIAL

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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FYTD96 EUROPE FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$0 YTD (USD)			
	Actual	Unadj	Variance	Actual	Unadj	Variance	Actual	Unadj	Variance	Licenses	Rev/Lc		
Office	371,008	312,785	58,223	19%	1,046,159	116,844	11%	288	21	7%	1,488,578	209	
Office Professional	241,218	188,866	52,352	28%	547,135	127,854	23%	345	12	4%	1,215,693	213	
Excel	55,209	66,354	(11,145)	(2%)	285,112	(30,781)	(10%)	178	16	9%	221,785	154	
Word	81,245	82,030	(785)	(1%)	434,791	(412,983)	(9%)	187	14	8%	391,095	180	
Powerpoint	6,400	6,437	(37)	(1%)	38,008	32,167	20%	217	17	8%	78,185	180	
Access	20,032	22,693	(2,661)	(12%)	124,334	(2,569)	(2%)	310	178	18%	280,203	148	
Project	37,988	32,895	5,093	15%	110,841	14,187	15%	343	340	2%	215,105	283	
Other Desktop Apps	6,049	1,854	4,195	259%	87,136	34,748	151%	78	53	23%	85,287	36	
Desktop Apps New Users	828,509	703,924	124,585	18%	2,819,907	2,876,059	(2%)	284	283	1%	4,094,042	107	
Office	150,003	103,728	46,275	45%	850,478	548,897	35%	183	189	(4%)	1,187,847	147	
Office Professional	84,005	81,353	2,652	3%	300,919	314,028	(4%)	281	259	2%	889,172	170	
Excel	14,646	26,805	(12,159)	(46%)	155,007	275,133	(43%)	94	98	(4%)	227,740	74	
Word	20,100	34,833	(14,733)	(42%)	231,334	(46,488)	(20%)	87	92	(5%)	294,924	75	
Powerpoint	1,097	2,204	(1,107)	(50%)	13,112	22,068	(41%)	84	100	(16%)	41,539	70	
Access	4,755	12,885	(8,130)	(39%)	52,887	(70,781)	(57%)	90	103	(12%)	76,952	55	
Project	5,072	6,007	(935)	(23%)	40,901	47,504	(14%)	124	139	(11%)	82,508	103	
Other Desktop Apps	(1)	5	(4)	(118%)	(10)	156	(168)	(106%)	88	50	58%	175	55
Desktop Apps Existing Users	280,727	280,119	608	0%	1,705,108	1,708,038	(0%)	174	157	11%	2,505,657	132	
Desktop Apps - Total	1,125,237	972,043	153,194	16%	4,835,165	4,385,095	10%	243	222	10%	6,540,898	172	
MSB	6,363	11,407	(5,044)	(44%)	300,322	333,448	(11%)	31	38	(4)	592,837	25	
Entertainment	12,577	12,198	379	3%	425,485	384,493	11%	30	32	(2)	1,301,222	26	
Personal Interests	6,440	7,300	(860)	(13%)	219,579	211,058	4%	28	28	0%	284,224	25	
Quad/Trip	6,702	4,257	2,445	57%	132,378	40,413	44%	81	48	4%	251,771	37	
Reference	13,202	9,879	3,323	34%	284,555	114,691	149%	60	88	(28)	826,308	39	
Doc	5	62	(57)	(92%)	87	860	(873)	(99%)	70	71	(1)	(87,018)	47
Imaging	93	454	(361)	(80%)	6,811	28,989	(23,178)	(78%)	14	15	(1)	16,959	9
New Desktop	48,381	45,897	2,484	5%	1,348,597	1,196,515	19%	38	40	(4)	2,888,151	28	
Publisher	8,132	8,917	(785)	(9%)	139,445	108,948	26%	65	53	13%	376,778	53	
Winks	26,312	23,760	2,552	10%	420,181	408,192	10%	67	58	9%	893,643	35	
Established Business	3,444	32,077	(28,633)	(85%)	559,590	578,141	(3%)	67	67	0%	1,003,421	41	
Keyboards	6,858	11,312	(4,454)	(40%)	98,890	158,530	(38%)	69	72	(2)	328,548	74	
Mouse/Gallop	21,868	24,041	(2,173)	(9%)	585,689	681,734	(14%)	37	35	2%	1,379,093	41	
Gaming Devices	11,742	3,918	7,824	200%	285,812	123,100	142%	44	32	12%	485,637	43	
Hardware	40,460	39,329	1,131	3%	950,181	863,304	13%	43	41	2%	2,394,278	48	
Consumer	120,201	117,704	2,497	2%	2,858,784	2,688,020	10%	44	44	0%	6,440,848	37	
Personal/Finance	4,815	3,193	1,622	51%	227,787	102,482	125%	21	31	(10)	189,443	20	
MSN - Dnic													
MSN - Connectivity													
MSN - Extended													
MSN - Internet													
Microsoft Network (MSN)													
Total Apps/Content	1,250,343	1,092,039	158,304	15%	7,711,736	7,185,577	8%	183	152	11%	13,151,192	104	

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APPENDIX - FYTD96 EUROPE FINISHED GOODS REVENUE SUMMARY

Q96-3

FYTD96 EUROPE FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USFO YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	License	Revenue	
MS-DOS	10,072	2,007	7,926	88,809	217,708	371%	36	36	1	644,127	35	
Windows, WW	48,914	8,895	40,019	181,423	604,189	400%	81	65	(16)	2,413,190	47	
Windows 95	225,250	285,454	(70,204)	2,238,511	3,447,543	(35%)	101	86	15	3,730,771	84	
MS Plus! (Freeing)	18,584	11,595	6,989	438,219	148,927	81%	42	40	2	1,008,759	36	
Other P/SO (At Work, Telephony)	809	32	937	508	34,146	8722%	28	62	(34)	41,963	7	
Personal Systems (Mk/lin)	303,230	310,072	(16,334)	3,938,435	(3,002)	(0%)	77	66	(11)	7,768,810	62	
Windows NT Workstation	35,830	10,487	19,309	72,890	98,924	133%	311	228	(83)	289,215	182	
Windows NT Server - Servers	44,035	31,533	12,502	57,246	21,485	36%	859	551	308	85,773	614	
Windows NT Server - Users	10,305	13,391	(2,974)	691,514	557,829	24%	24	24	(0)	1,107,149	15	
SOL Server - Servers	8,900	6,757	2,143	9,078	(87)	(1%)	177	744	(567)	16,731	636	
SOL Server - Users	5,109	9,201	(4,012)	48,882	(35,977)	(43%)	111	111	(0)	13,306	83	
Dictionary - Servers	10,811	4,200	6,611	8,732	5,700	189%	1,238	1,418	(180)	7,778	1,058	
Dictionary - Users	9,744	4,480	5,265	29,459	72,607	246%	95	151	(56)	200,707	83	
Mail - Servers	7,480	5,303	2,177	15,484	3,924	25%	385	342	43	34,804	266	
Mail - Users	2,070	1,081	989	19,406	32,315	129%	38	43	(5)	224,428	19	
Mail - AddOns, Upgrades	9,113	6,740	2,373	81,595	78,248	17%	65	93	(28)	271,896	70	
Exchange - Servers	100	1,057	(957)	1,910	(1,707)	(64%)	1,731	553	1,178	1,564	1,902	
Exchange - Users	6	1,064	(1,058)	85	20,276	(100%)	87	52	35	8,370	47	
MSB Server - Servers	3,020	2,168	851	4,418	2,385	84%	444	481	(37)	6,324	388	
MSB Server - Users	6,477	3,762	2,715	119,878	110%	28	35	(7)	614,841	20		
MSA Server - Servers	1,578	1,286	292	6,695	4,244	54%	377	303	(74)	15,969	97	
MSA Server - Users	2,477	2,054	424	85,099	43,454	43%	38	45	(7)	124,450	28	
Other Business Systems	10,311	7,758	2,553	10,787	(85,033)	(88%)	958	102	856	8,821	3,818	
Business Systems New Users	171,704	117,371	54,333	1,175,840	485,268	40%	103	100	3	3,189,765	78	
Windows NT Workstation	6,348	810	5,538	24,553	89,852	243%	75	25	50	177,212	71	
Windows NT Server - Servers	2,710	1,555	1,155	18,188	4,378	23%	115	82	34	53,087	60	
Windows NT Server - Users	1,225	950	269	3,600	1,140	47%	340	390	(50)	8,266	230	
SQL Server - Servers	1,471	1,257	214	20,835	814	3%	85	48	37	78,155	36	
SQL Server - Users	559	(559)	(1,000)	1,378	(1,378)	(100%)	1	42	(41)	647	88	
Exchange - Servers	628	(828)	(1,456)	15,046	(15,046)	(100%)	37	68	(31)	318,427	65	
Exchange - Users	6	407	(401)	5,890	(5,890)	(100%)	65	63	2	3,518,212	77	
Other Business Systems	11,768	5,982	5,786	94,668	43,937	46%	103	87	16	302,822	145	
Business Systems Existing Users	163,470	123,353	40,117	1,270,306	609,205	40%	243	168	75	3,518,212	145	
Visual Basic	28,948	20,473	8,475	121,740	1,388	1%	238	169	69	103,870	170	
For	6,307	11,137	(2,831)	35,284	(30,745)	(47%)	238	169	69	214,320	148	
C++	14,300	14,445	(145)	67,357	(12,071)	(18%)	280	214	66	81,153	482	
MSUN	11,503	7,828	3,675	20,545	1,900	10%	903	420	483	84,400	257	
Other Developer Products	12,890	15,182	(2,212)	82,085	(23,490)	(28%)	334	243	91	758,663	184	
Developer	77,080	68,080	9,000	335,822	(63,017)	(18%)	283	203	80	292,342	105	
ACT - Rollings	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	ACT - Other	
64,206	810,411	63,003	6,664,883	443,128	8%	84	82	2	12,071,067	74		
1,870,639	1,003,351	217,280	13,718,425	12,750,140	988,285	8%	133	128	5	35,322,819	90	
27,717	28,176	(459)	102,412	102,412	0%	271	271	0	292,342	105		
(75,957)	(40,800)	(35,157)	102,412	102,412	0%	271	271	0	292,342	105		
39,707	20,745	18,962	1,071,697	1,071,697	0%	131	128	3	25,475,221	86		
1,812,105	1,008,473	203,662	13,821,837	12,750,140	1,071,697	6%	131	128	3	25,475,221	86	

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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Q96-3 ICON FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY08 US\$0 YTD (US\$)		
	Actual	Unaud	Variance	Actual	Unaud	Variance	Actual	Unaud	Variance	Licenses	Rev/Lic	
Office	28,850	30,903	(2,053)	148,188	144,052	4,136	195	215	(20)	1,494,578	209	
Office Professional	24,392	30,728	(6,337)	95,567	103,123	(7,556)	255	298	(43)	1,315,893	213	
Excel	1,000	3,050	(1,180)	12,592	21,406	(8,814)	148	142	6	221,785	154	
Word	3,970	6,068	(2,128)	30,707	45,044	(14,337)	128	135	(6)	391,095	136	
Powerpoint	374	730	(356)	2,822	4,824	(2,002)	128	148	(20)	70,185	109	
Access	1,107	2,545	(1,438)	7,540	10,037	(2,497)	147	159	(12)	260,283	148	
Project	2,900	3,237	(337)	10,870	11,827	(957)	267	274	(7)	215,105	283	
Other Desktop Apps	101	101	-	1,803	88	1,715	56	-	56	85,287	39	
Desktop Apps New Users	63,554	71,292	(13,738)	310,189	348,501	(38,312)	203	223	(19)	4,044,042	197	
Office	12,830	6,302	6,474	103,739	48,507	55,122	124	131	(7)	1,192,847	147	
Office Professional	3,374	6,960	(2,587)	28,503	37,768	(11,265)	127	158	(30)	589,172	170	
Excel	141	998	(855)	2,854	18,565	(15,711)	49	60	(11)	227,740	74	
Word	441	1,184	(742)	8,455	20,088	(11,633)	52	59	(7)	294,924	75	
Powerpoint	43	148	(107)	748	2,455	(1,707)	57	61	(4)	41,539	70	
Access	85	843	(758)	1,353	8,048	(6,693)	63	60	(3)	78,952	65	
Project	389	417	(28)	4,310	4,800	(490)	90	80	10	82,508	103	
Other Desktop Apps	(0)	-	(0)	(1)	-	(1)	27	-	27	175	55	
Desktop Apps Existing Users	17,309	15,710	1,599	147,970	138,367	9,603	117	114	3	2,505,857	132	
Desktop Apps - Total	80,862	93,002	(12,139)	458,159	486,868	(28,709)	176	192	(16)	6,349,899	172	
Kids	971	1,638	(667)	54,055	58,316	(2,261)	18	28	(10)	692,887	23	
Entertainment	800	1,899	(999)	31,359	52,572	(21,213)	28	32	(4)	1,301,222	26	
Personal Interests	489	854	(365)	22,178	27,743	(5,565)	21	31	(10)	284,224	25	
Geo/Travel	183	338	(146)	5,913	7,730	(1,817)	33	44	(11)	251,771	37	
Reference	501	1,387	(886)	21,352	31,496	(10,144)	23	44	(21)	826,308	39	
Hob	21	11	10	108	206	(98)	31	55	(24)	(87,018)	47	
Imaging	2	44	(22)	1,518	2,830	(1,314)	14	15	(1)	16,959	9	
New Business	2,004	5,971	(3,037)	130,481	178,993	(48,512)	22	33	(12)	2,068,151	28	
Publisher	800	784	(150)	17,429	18,108	(679)	35	42	(7)	376,778	63	
Works	805	1,952	(887)	34,418	45,777	(11,361)	25	34	(9)	883,643	35	
Established Business	1,473	2,310	(843)	51,845	63,005	(12,160)	26	36	(10)	1,000,421	41	
Keyboards	873	1,303	(430)	17,842	19,305	(1,463)	49	67	(19)	328,548	74	
Mouse/Dialpoint	2,200	2,120	140	91,944	74,017	17,927	25	29	(4)	1,979,093	41	
Gaming Devices	1,235	852	573	28,480	19,280	9,200	43	34	9	485,837	43	
Hardware	4,358	4,074	283	138,200	112,602	25,664	32	38	(5)	2,394,278	48	
Consumer	6,704	12,381	(3,567)	328,592	355,180	(26,608)	27	33	(6)	8,440,848	37	
Personal Finance	165	70	94	11,287	3,611	7,676	15	18	(3)	160,445	20	
MSN - Basic	-	-	-	-	-	-	-	-	-	-	-	
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-	
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-	
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-	
Microsoft Network (MSN)	-	-	-	-	-	-	-	-	-	-	-	
Total Apps/Content	69,821	105,434	(15,612)	789,038	843,039	(47,901)	113	123	(12)	13,151,182	104	

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Q96-3 ICON FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY00 US\$K YTD (US\$)				
	Actual	Unadg	Variance	Actual	Unadg	Variance	Actual	Unadg	Variance	Actual	Unadg	Variance		
MS-DOS	991	828	403	88%	32,809	18,537	16,272	99%	30	32	(2)	(5%)	644,127	35
Windows V/W	6,403	1,344	4,059	302%	125,500	22,480	103,110	458%	43	60	(17)	(28%)	2,412,190	47
Windows OS	(500)	10,869	(20,488)	(102%)	22,128	254,123	(231,997)	(91%)	(23)	79	(101)	(128%)	3,750,771	84
MS Mail (Fronting)	349	690	(341)	(49%)	10,983	20,111	(3,218)	(19%)	21	34	(14)	(40%)	1,066,759	36
Other (FRD) (AI Work, Telephony)	4	8	(1)	(22%)	881	84	807	961%	5	82	(77)	(93%)	41,903	7
Personal Systems Division	6,247	22,650	(18,309)	(72%)	199,309	313,335	(119,026)	(37%)	37	72	(40)	(98%)	7,960,910	82
Windows NT Workstation	2,076	845	1,232	140%	14,008	4,257	9,751	229%	148	198	(50)	(25%)	269,215	182
Windows NT Server - Servers	3,246	3,682	(436)	(12%)	7,406	8,885	(1,479)	(18%)	428	415	23	5%	95,773	614
Windows NT Server - Users	1,861	1,213	368	30%	106,291	64,812	43,979	68%	15	19	(4)	(22%)	1,167,149	15
SQL Server - Servers	1,032	927	105	11%	1,477	2,052	(585)	(29%)	899	450	248	55%	16,731	638
SQL Server - Users	943	1,205	(321)	(25%)	11,297	13,553	(2,230)	(17%)	84	93	(10)	(11%)	131,368	83
FileOffice - Servers	2,410	549	1,861	319%	2,847	426	2,221	521%	910	1,286	(376)	(29%)	7,779	1,058
FileOffice - Users	2,652	668	1,984	291%	30,333	5,011	25,322	503%	87	133	(46)	(34%)	200,707	83
Mail - Servers	800	998	108	15%	2,809	2,232	577	26%	287	313	(26)	(8%)	34,804	268
Mail - Users	544	277	267	66%	28,872	8,783	17,878	203%	20	32	(11)	(35%)	224,428	19
Mail - AddOns, Upgrades	832	416	416	66%	12,913	4,772	8,141	171%	64	88	(23)	(28%)	271,899	70
Exchange - Servers	42	88	(46)	(53%)	45	250	(205)	(82%)	928	352	577	164%	1,564	1,602
Exchange - Users	40	302	(262)	(87%)	965	5,209	(4,324)	(83%)	45	58	(13)	(22%)	8,370	47
SMS Server - Servers	138	283	(157)	(53%)	428	715	(287)	(40%)	319	410	(92)	(22%)	6,324	388
SMS Server - Users	888	472	214	45%	35,411	14,782	20,648	140%	19	32	(13)	(39%)	614,841	20
SNA Server - Servers	116	127	(11)	(9%)	2,078	458	1,618	36%	56	278	(222)	(80%)	15,968	97
SNA Server - Users	239	244	(4)	(2%)	6,099	6,081	2,218	36%	30	41	(12)	(28%)	124,450	28
Other Business Systems	1,328	220	1,108	803%	757	8,723	(4,968)	(87%)	1,755	38	1,716	4481%	8,821	3,616
Business Systems New Users	18,712	12,288	6,424	62%	283,554	147,561	117,993	80%	70	83	(13)	(15%)	3,198,785	78
Windows NT Workstation	602	67	534	792%	8,306	1,981	6,325	319%	72	54	38	113%	177,272	71
Windows NT Server - Servers	252	190	92	59%	2,914	1,790	1,154	66%	87	91	(4)	(5%)	63,087	60
Windows NT Server - Users	90	146	(51)	(35%)	737	418	319	76%	131	353	(223)	(63%)	6,266	230
SQL Server - Servers	128	120	8	5%	5,034	3,027	2,007	68%	25	40	(15)	(37%)	79,155	36
Exchange - Servers	8	29	(21)	(73%)	40	184	(124)	(19%)	198	178	22	13%	-	-
Exchange - Users	70	92	(14)	(15%)	8,000	2,432	3,568	147%	13	36	(25)	(60%)	-	-
Other Business Systems	4	103	(99)	(96%)	62	1,793	(1,753)	(97%)	82	57	6	8%	647	88
Business Systems Existing Users	1,100	719	447	62%	23,093	11,577	11,516	99%	50	62	(12)	(19%)	318,427	65
Visual Field	19,978	13,007	6,971	51%	288,847	159,136	128,509	81%	69	82	(13)	(16%)	3,518,212	77
Fox	2,327	1,893	634	37%	12,386	10,352	2,034	20%	188	164	24	15%	302,822	145
C++	1,000	855	211	25%	4,945	4,398	547	12%	218	194	21	11%	103,870	170
MSDN	500	288	224	78%	3,074	839	2,235	200%	106	340	(175)	(51%)	51,153	402
Other Developer Products	270	1,053	(783)	(74%)	3,831	8,531	(1,700)	(31%)	71	190	(120)	(63%)	84,400	257
Developer	8,110	8,843	(835)	(14%)	29,203	36,408	(7,205)	(20%)	175	183	(12)	6%	756,905	184
AGI - Rollings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AGI - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Products	31,244	41,607	(10,363)	(25%)	518,159	508,941	7,218	1%	61	82	(21)	(26%)	12,071,867	74
Total Product Group	121,005	148,941	(25,976)	(18%)	1,312,187	1,352,880	(40,693)	(3%)	92	109	(16)	(15%)	25,222,819	90
Press	8,104	1,851	6,253	427%	10,125	-	10,125	-	474	-	474	-	257,342	105
Other (Main, MFR, Xenix, I117)	(12,070)	(2,711)	(9,008)	300%	-	-	-	-	-	-	-	-	-	-
Recycling Mat (Inferials)	8,225	2,053	4,172	203%	-	-	-	-	-	-	-	-	-	-
Recycling Mat (recap'd)	122,718	147,834	(25,119)	(17%)	1,331,322	1,352,880	(21,558)	(2%)	82	109	(17)	(16%)	25,475,321	88

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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FYTD96 ICON FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FYTD USFYTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic	Rev/Lic	
Office Professional	87,309	83,030	4,279	48,000	48,000	0	208	217	(9)	1,466,879	209	213	
Office Excel	6,425	6,560	(135)	308,810	274,187	34,623	13%	259	293	(34)	1,315,693	154	154
Word	11,021	18,309	(7,288)	47,512	87,285	(39,773)	(29%)	135	142	(7)	221,785	136	136
Powerpoint	1,442	2,120	(678)	96,910	132,094	(35,184)	(23%)	121	139	(18)	381,085	189	189
Access	3,071	6,000	(2,929)	11,820	14,737	(2,917)	(20%)	172	144	(28)	76,185	148	148
Project	0,514	0,186	318	25,881	37,315	(11,434)	(31%)	138	158	(20)	260,283	293	293
Other Desktop Apps	213	-	213	30,682	33,548	(2,866)	9%	200	274	(74)	218,185	39	39
Desktop Apps New Users	210,501	218,038	(7,537)	1,001,593	987,427	14,166	1%	310	321	(11)	4,044,042	197	197
Office Professional	14,404	14,357	47	254,232	143,845	110,387	77%	124	126	(2)	1,162,847	147	147
Excel	1,064	3,286	(2,222)	96,829	91,398	5,431	6%	149	157	(8)	588,172	74	74
Word	2,138	3,488	(1,350)	17,139	57,385	(40,246)	(70%)	62	57	5	227,740	75	75
Powerpoint	137	489	(352)	35,530	57,169	(21,639)	(38%)	60	61	(1)	294,924	70	70
Access	425	1,390	(965)	2,570	7,720	(5,150)	(67%)	54	61	(7)	41,538	65	65
Project	1,309	1,085	224	6,973	17,785	(10,812)	(61%)	61	78	(17)	78,952	103	103
Other Desktop Apps	(1)	-	(1)	14,070	13,703	367	3%	70	78	(8)	82,608	55	55
Desktop Apps Existing Users	51,114	42,104	9,010	427,978	389,005	38,973	10%	119	108	11	2,505,857	132	132
Desktop Apps - Total	281,815	260,801	21,014	1,426,571	1,378,492	48,079	4%	183	186	(3)	6,349,696	172	172
Kids	4,282	4,504	(222)	204,478	197,843	6,635	3%	21	20	1	692,087	25	25
Entertainment	3,341	3,986	(645)	128,418	124,893	3,525	4%	26	32	(6)	1,301,222	28	28
Personal Interests	1,978	2,810	(832)	80,444	83,850	(3,406)	(4%)	22	31	(9)	284,224	35	35
Geo/Travel	438	373	65	13,002	8,518	4,484	53%	34	44	(10)	251,771	37	37
Reference	1,877	4,341	(2,464)	69,835	98,612	(28,777)	(29%)	27	44	(17)	628,308	39	39
Web	21	38	(17)	542	693	(151)	(22%)	39	54	(15)	87,018	47	47
Imaging	88	152	(64)	5,990	9,944	(3,954)	(43%)	12	15	(3)	16,959	9	9
New Products	12,001	10,014	1,987	513,410	483,858	29,552	6%	23	33	(10)	2,986,151	28	28
Hardware	2,310	2,027	283	53,921	62,850	(8,929)	(14%)	41	42	(1)	576,778	63	63
Books	3,330	4,036	(706)	170,288	148,953	21,335	(22%)	29	33	(4)	683,843	35	35
Established Business	5,548	3,505	2,043	170,209	211,812	(41,603)	(24%)	33	36	(3)	1,090,421	41	41
Keyboards	3,452	5,025	(1,573)	66,117	75,280	(9,163)	(12%)	62	67	(5)	328,548	74	74
Mouse/Keyboard	7,344	6,905	439	282,039	242,052	39,987	17%	26	29	(3)	1,579,093	41	41
Gaming Devices	2,508	1,253	1,255	60,709	39,447	21,262	54%	41	37	4	485,837	43	43
Hardware	13,304	13,243	61	408,805	358,778	50,027	15%	33	37	(4)	2,394,278	46	46
Consumer	30,653	30,612	41	1,082,484	1,052,247	30,237	4%	28	35	(7)	6,440,848	37	37
Personal Finance	418	211	207	30,543	10,835	19,708	182%	14	19	(5)	190,445	20	20
MSN - Basic	-	-	-	-	-	-	-	-	-	-	-	-	
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-	-	
MSN - L'Internet	-	-	-	-	-	-	-	-	-	-	-	-	
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-	-	
Microsoft Network (MSN)	-	-	-	-	-	-	-	-	-	-	-	-	
Total Apps/Content	202,084	207,825	(5,741)	2,532,568	2,438,514	94,054	5%	115	122	(7)	13,151,192	104	104

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FYTD96 ICON FINISHED GOODS REVENUE SUMMARY (continued)

	Revenue			Licenses			Revenue/License			FYTD US\$ (USD)				
	Actual	Unadj.	Variance	Actual	Unadj.	Variance	Actual	Budget	Variance	Actual	Budget	Variance		
			Var %			Var %			Var %			Var %		
MR-DOB	3,408	1,068	1,238	104%	52,655	83,242	154%	25	32	(7)	21%	644,127	35	
Windows, WWW	19,003	6,215	14,788	203%	85,076	395,264	465%	42	81	(20)	(23%)	2,413,190	47	
Windows 95	73,207	71,261	2,037	3%	863,453	(19,026)	(2%)	83	80	3	6%	3,730,771	84	
MS Mail (Frontend)	3,595	2,114	1,481	70%	138,207	60,991	77,276	127%	28	35	(7)	(25%)	1,008,766	36
Other (MSD (AI Work, Telephony))	1	17	(17)	(95%)	1,285	280	1,005	359%	1	62	(61)	(98%)	41,003	7
Personal Systems Division	100,263	80,276	19,988	25%	1,824,324	1,092,457	54,167	25%	81	73	8	(11%)	7,268,810	82
Windows NT Workstation	3,762	2,325	1,437	61%	23,914	11,003	12,251	105%	137	109	28	(21%)	206,215	162
Windows NT Server - Servers	9,831	10,283	(452)	(4%)	21,596	24,488	(2,872)	(12%)	456	420	36	9%	95,773	814
Windows NT Server - Users	4,451	3,302	1,089	32%	303,829	179,376	124,253	69%	18	19	(1)	(22%)	1,167,149	15
SOL Server - Servers	2,076	2,038	40	2%	4,259	5,728	(1,469)	(26%)	628	400	228	57%	16,731	630
SOL Server - Users	2,208	3,014	(1,406)	(39%)	27,414	38,612	(11,198)	(29%)	81	94	(13)	(14%)	131,268	83
Technical - Servers	6,189	1,371	3,818	216%	5,094	1,074	4,020	374%	1,018	1,277	(258)	(20%)	7,279	1,058
Technical - Users	4,032	1,025	3,007	185%	49,388	12,298	37,090	302%	84	132	(48)	(28%)	200,707	83
Mail - Servers	2,590	2,281	308	14%	8,717	7,322	1,395	19%	297	311	(14)	(5%)	34,804	266
Mail - Users	1,175	909	266	29%	47,197	29,170	18,027	62%	25	31	(6)	(20%)	224,428	19
Mail - AddOns, Upgrades	2,343	1,419	894	62%	40,818	19,589	24,028	145%	56	87	(30)	(34%)	271,888	70
Exchange - Servers	42	121	(79)	(65%)	45	345	(300)	(87%)	928	350	578	165%	1,504	1,802
Exchange - Users	40	405	(365)	(90%)	885	7,289	(6,384)	(88%)	45	58	(11)	(19%)	8,370	47
SAS Server - Servers	512	838	(326)	(39%)	1,314	2,040	(726)	(36%)	390	411	(21)	(5%)	8,224	388
SAS Server - Users	1,792	1,308	488	37%	88,892	40,785	47,885	117%	20	32	(12)	(37%)	614,841	20
SNA Server - Servers	338	303	35	(7%)	5,338	1,304	4,032	309%	63	278	(215)	(77%)	15,989	97
SNA Server - Users	843	687	156	(23%)	24,199	16,538	7,661	46%	27	42	(15)	(36%)	124,450	28
Other Business Systems	1,807	656	1,151	145%	17,082	(14,925)	(27%)	745	88	657	707	1840%	8,621	3,616
Business Systems New Users	43,842	34,220	9,612	28%	654,455	411,663	242,782	59%	67	83	(16)	(18%)	3,196,785	76
Windows NT Workstation	1,189	208	981	481%	17,659	8,683	10,776	157%	64	30	34	119%	177,272	71
Windows NT Server - Servers	808	501	187	37%	10,841	6,032	4,909	81%	63	83	(20)	(24%)	53,087	60
Windows NT Server - Users	448	627	(78)	(15%)	1,952	1,488	454	30%	228	352	(122)	(35%)	8,286	230
SOL Server - Servers	441	435	6	1%	13,435	10,823	2,612	26%	33	41	(8)	(20%)	79,155	38
SOL Server - Users	0	38	(38)	(100%)	40	223	(183)	(82%)	188	172	16	9%	647	88
Exchange - Servers	70	103	(25)	(24%)	0,000	2,747	(2,747)	(100%)	13	38	(25)	(65%)	617	65
Exchange - Users	4	310	(306)	(98%)	209	5,448	(5,239)	(98%)	22	57	(35)	(61%)	318,427	65
Other Business Systems	2,830	2,123	715	34%	50,228	33,454	16,782	50%	56	83	(27)	(32%)	3,518,212	71
Business Systems - Total	48,878	38,353	10,325	28%	704,891	445,117	259,574	59%	66	82	(16)	(18%)	3,022,922	145
Visual Basic	6,521	5,008	1,514	30%	35,118	30,513	5,208	17%	183	164	18	11%	103,870	170
Fort	4,400	5,914	(1,509)	(26%)	24,059	44,422	(20,363)	(46%)	183	133	50	38%	214,320	146
C++	2,030	2,489	(459)	(18%)	10,501	12,805	(2,304)	(18%)	193	193	0	0%	51,153	482
MSLN	1,030	762	268	35%	4,321	2,310	2,005	87%	238	329	(91)	(28%)	84,400	237
Other Developer Products	1,802	2,155	(1,202)	(41%)	6,569	16,555	(9,986)	(60%)	284	191	93	48%	750,065	184
Developer	15,840	17,307	(1,467)	(8%)	81,100	100,011	(25,442)	(24%)	195	102	93	20%	12,071,867	74
ACT - Rollinings														
ACT - Other														
Total Products	102,760	133,035	(26,855)	(21%)	2,470,164	1,844,185	715,999	47%	87	81	(6)	(7%)	25,222,876	90
Total Product Group	455,075	431,761	23,914	6%	4,972,782	4,083,759	889,023	22%	82	108	(26)	(25%)	25,475,221	87
Press	12,420	4,610	7,811	168%	179,381		179,381		69		69		252,342	105
Other (Man, MFR, Xentis, OS2)	(20,538)	(6,000)	(23,570)	(300%)										
Including Mini (deferred)	14,721	5,978	8,743	148%										
Recurring Mini (recognized)	453,209	430,365	10,844	4%	5,153,183	4,083,759	1,069,404	26%	88	107	(19)	(18%)	25,475,221	87
Gross Revenue														

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Q96-3 FAR EAST FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			License			Revenue / License			FY96 USFO YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Office	37,350	64,481	(17,131)	183,652	207,228	(23,576)	203	286	(83)	1,486,578	209	
Office Professional	71,013	51,260	19,753	314,341	145,882	168,459	226	352	(126)	1,315,893	213	
Excel	11,407	10,207	1,199	87,987	79,087	8,900	131	206	(75)	221,765	154	
Word	17,463	3,714	13,749	191,692	31,306	160,386	91	119	(28)	391,085	138	
Powerpoint	659	802	(143)	5,105	5,894	(789)	129	151	(22)	78,185	169	
Access	6,152	7,450	(1,298)	63,094	41,601	21,493	126	178	(52)	280,263	148	
Project	2,721	10,043	(7,322)	15,388	26,897	(11,509)	177	346	(169)	215,185	203	
Other Desktop Apps	15	118	(103)	182	409	(227)	81	289	(208)	85,287	56	
Desktop Apps New Users	148,801	144,184	4,617	861,441	535,084	326,357	173	269	(96)	4,044,042	187	
Office Professional	7,335	14,635	(7,300)	27,142	71,428	(44,286)	138	205	(67)	1,182,847	147	
Excel	7,331	24,881	(17,550)	42,842	88,181	(45,339)	172	279	(107)	589,172	170	
Word	209	3,842	(3,633)	2,856	44,704	(41,848)	73	88	(15)	227,740	74	
Powerpoint	(79)	1,802	(1,881)	(1,445)	21,569	(23,014)	95	84	(11)	284,874	75	
Access	15	120	(105)	184	1,575	(1,391)	92	80	12	41,539	70	
Project	410	3,527	(3,117)	2,388	40,608	(38,220)	171	87	84	76,952	93	
Other Desktop Apps	48	43	5	675	502	173	71	85	(14)	82,508	103	
Desktop Apps Existing Users	11,608	48,806	(37,198)	74,432	289,547	(215,115)	167	181	(14)	2,505,857	132	
Desktop Apps - Total	180,529	183,000	(2,471)	935,873	601,631	334,242	172	240	(68)	6,548,859	172	
Kids	543	2,537	(1,994)	18,134	87,819	(69,685)	34	37	(3)	582,667	25	
Entertainment	91	118	(27)	47,056	50,383	(3,327)	56	45	10	1,301,222	28	
Personal Interest	10	2	8	2,647	3,254	(607)	34	36	(2)	284,224	25	
Geo/Travel	30	81	(51)	599	1,933	(1,334)	50	42	8	251,771	37	
Reference	3	21	(18)	43	348	(305)	68	60	8	628,308	39	
Rob	27	15	12	918	676	242	26	22	4	(87,018)	47	
Imaging	3,378	5,050	(1,672)	17,853	124,474	(106,621)	49	41	8	16,959	9	
New Business	18	7	11	305	84	221	59	74	(15)	3,885,151	29	
Publisher	1,322	609	713	22,551	10,680	11,871	59	57	2	576,778	53	
White	1,340	616	724	32,850	10,714	22,136	58	57	1	683,643	35	
Established Business	241	484	(243)	4,700	7,830	(3,130)	51	53	(2)	1,060,421	41	
Keyboards	3,028	809	2,219	118,432	29,245	89,187	31	34	(3)	1,578,993	41	
Mouse/Joystick	1,264	533	731	25,683	14,127	11,556	49	38	12	485,837	43	
Gaming Devices	5,134	2,008	3,126	148,795	51,002	97,793	35	39	(4)	2,384,278	48	
Hardware	9,799	7,878	1,921	239,504	186,230	53,274	41	41	(0)	6,440,848	37	
Consumer	1	2	(1)	50	114	(64)	18	19	(1)	160,443	20	
Personal Finance												
MSN - Italk												
MSN - Connectivity												
MSN - Extended												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Content	170,329	200,741	(30,412)	1,174,433	690,993	483,440	143	203	(60)	13,181,192	104	

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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Q96-3 FAR EAST FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			F100 USKU YTD (US\$)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic	Know/C
MS-DOCS	438	64	374	63%	1,817	6,057	831%	48	42	6	544,127	35
Windows, VAW	2,932	219	2,717	1264%	39,190	31,980	415%	75	28	47	2,413,190	47
Windows OS	10,282	28,129	(17,846)	(63%)	122,859	(171,431)	(59%)	84	98	(14)	3,730,711	64
MS Plus! (Frothing)	5,189	2,128	3,073	145%	130,325	81,890	207%	38	48	(10)	1,066,789	38
Other PSD (AI Week, Telephony)	40	1	48	8911%	250	237	1823%	195	53	142	41,903	7
Personal Systems Division	18,900	30,534	(11,634)	(38%)	307,898	(39,681)	(11%)	61	88	(28)	7,788,810	62
Windows NT Workstation	8,701	4,714	3,988	85%	60,141	28,284	33,857	129%	145	178	288,215	182
Windows NT Server - Servers	10,905	6,985	4,940	63%	19,508	11,404	8,104	71%	559	523	95,773	514
*Windows NT Server - Users	5,985	2,136	3,829	179%	281,288	103,508	177,782	172%	21	21	1,187,149	19
SOL Server - Servers	5,987	3,898	2,299	62%	8,058	4,917	3,141	64%	744	752	10,731	638
*Backoffice - Servers	4,087	3,935	152	4%	48,799	45,721	1,078	2%	87	86	131,388	83
*Backoffice - Users	1,368	204	848	485%	700	118	642	544%	1,518	1,728	7,778	1,058
*Mail - Servers	1,032	1,503	(471)	(31%)	15,444	1,177	14,267	1212%	90	200	200,707	63
*Mail - Users	251	1,189	(938)	(78%)	6,425	21,707	(15,282)	(70%)	39	55	224,428	19
*Mail - AddOns, Upgrades	844	573	271	47%	7,482	1,491	5,991	402%	113	384	271,888	70
Exchange - Servers	6	6	0	(100%)	14	14	(14)	(100%)	421	(421)	1,564	1,002
Exchange - Users	1,845	14	1,831	170%	3,833	520	(3,313)	(100%)	28	28	8,370	47
*SMS Server - Servers	1,954	712	1,242	174%	68,958	18,359	50,599	278%	481	413	6,324	388
*SMS Server - Users	177	232	(55)	(34%)	558	635	(77)	(12%)	28	39	614,841	20
*SNA Server - Servers	197	268	(71)	(34%)	4,333	5,403	(1,070)	(20%)	352	385	15,969	87
*SNA Server - Users	2,230	203	2,027	993%	2,282	2,480	(198)	(8%)	41	50	124,450	28
Other Business Systems	46,720	20,272	26,454	78%	528,819	249,348	279,473	112%	87	105	8,821	3,818
Business Systems New Users	402	538	(133)	(25%)	10,288	18,274	(8,986)	(37%)	39	33	177,272	71
Windows NT Workstation	442	237	205	86%	958	4,184	(3,226)	(77%)	481	57	53,087	60
Windows NT Server - Servers	1,113	838	275	33%	3,186	2,887	499	19%	348	311	8,288	230
SOL Server - Servers	608	903	103	20%	9,510	9,450	60	1%	64	53	78,155	39
Exchange - Servers	0	0	0	(100%)	0	0	0	(100%)	0	0	0	0
Exchange - Users	0	209	(209)	(100%)	0	9,003	(9,003)	(100%)	82	23	647	88
Other Business Systems	2,583	2,323	240	10%	23,981	41,818	(17,837)	(42%)	107	56	318,427	45
Business Systems Existing Users	49,289	28,583	20,894	72%	552,740	280,804	271,936	80%	85	98	3,318,212	77
Business Systems - Total	10,703	19,001	642	3%	80,457	79,470	987	1%	245	240	502,822	145
Visual Basic	485	1,144	(679)	(59%)	3,585	8,199	(4,614)	(56%)	130	139	103,870	170
Fox	15,858	28,723	(11,105)	(42%)	50,477	64,703	(14,226)	(22%)	308	413	214,320	148
C++	2,388	1,535	854	56%	4,047	2,781	1,266	87%	514	552	81,153	482
MS/DJN	3,078	314	3,063	1105%	11,375	1,927	9,448	645%	350	206	84,400	287
Other Developer Products	42,692	48,177	(5,085)	(14%)	150,541	150,080	(461)	(4%)	260	311	750,005	184
Developer	0	0	0	(100%)	0	0	0	(100%)	0	0	0	0
ACT - Softimage	0	0	0	(100%)	0	0	0	(100%)	0	0	0	0
ACT - Other	110,281	107,808	2,315	2%	1,011,219	785,203	216,016	27%	109	136	12,817,887	74
Total Platforms	200,810	308,047	(28,037)	(9%)	2,180,052	1,780,168	400,484	22%	128	173	23,232,878	90
Total Product Group	14,807	15	14,992	94040%	83,800	83,800	0	0%	174	174	295,342	103
Other (Mini, MISC, Xents, OS/2)	(3,189)	0	(3,189)	(100%)	0	0	0	(100%)	0	0	0	0
Recycling Mkt (Hardware)	1,424	71	1,353	1915%	0	0	0	0%	0	0	0	0
Recycling Mkt (recapitated)	293,532	308,733	(15,202)	(5%)	2,270,242	1,780,168	484,344	27%	128	173	25,478,221	88
Gross Revenue												

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FYTD96 FAR EAST FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$ O YTD (US\$)		
	Actual	Unaudited	Variance	Actual	Unaudited	Variance	Actual	Unaudited	Variance	Actual	Unaudited	Variance
Office	97,840	96,187	1,653	363,875	363,875	0	225	265	(40)	1,499,878	1,499,878	0
Office Professional	185,152	81,184	103,968	381,285	381,285	0	283	328	(45)	1,315,883	1,315,883	0
Excel	42,155	37,188	5,000	225,887	225,887	0	102	109	(7)	221,785	221,785	0
Word	31,870	9,305	22,565	80,316	80,316	0	72	117	(45)	391,085	391,085	0
Powerpoint	1,943	2,488	(545)	15,901	15,901	0	157	159	(2)	78,185	78,185	0
Access	15,932	13,914	2,017	80,166	80,166	0	148	174	(26)	280,263	280,263	0
Project	4,805	10,001	(5,196)	25,003	25,003	0	188	341	(153)	215,185	215,185	0
Other Desktop Apps	54	725	(671)	772	2,268	(1,496)	174	250	(76)	85,287	85,287	0
Desktop Apps New Users	359,852	251,744	108,107	1,007,350	1,056,988	(49,638)	177	195	(18)	4,044,042	4,044,042	0
Office	23,848	17,304	6,544	89,015	44,780	44,235	177	195	(18)	1,922,847	1,922,847	0
Office Professional	33,037	25,403	7,633	150,734	91,908	58,826	210	278	(67)	688,172	688,172	0
Excel	1,922	4,118	(2,196)	22,515	48,326	(25,811)	85	85	0	227,740	227,740	0
Word	760	2,351	(1,571)	10,635	28,731	(18,096)	73	78	(5)	294,924	294,924	0
Powerpoint	253	222	31	3,086	2,853	233	82	78	4	41,539	41,539	0
Access	1,161	3,898	(2,737)	10,050	42,889	(32,839)	115	87	28	78,952	78,952	0
Project	91	78	13	1,297	944	353	70	81	(11)	82,508	82,508	0
Other Desktop Apps	0	0	0	1,050	(1,050)	2,100	0	92	(92)	175	175	0
Desktop Apps Existing Users	60,081	83,378	(23,297)	332,092	306,378	25,714	183	174	9	2,505,857	2,505,857	0
Desktop Apps - Total	420,733	305,070	115,663	1,339,442	1,063,366	276,076	178	232	(54)	8,549,899	8,549,899	0
Mids	1,534	5,214	(3,680)	42,768	132,832	(90,064)	38	36	2	682,887	682,887	0
Entertainment	7,095	9,889	(2,794)	142,240	158,837	(16,597)	60	62	(2)	1,301,222	1,301,222	0
Personal Interest	406	1,108	(704)	10,402	30,138	(19,736)	39	37	2	284,224	284,224	0
Geo/Trevel	18	8	10	477	145	332	34	42	(8)	251,771	251,771	0
Reference	287	278	9	7,809	6,404	1,405	37	42	(5)	828,308	828,308	0
Doc	215	180	35	1,000	1,047	(47)	52	60	(8)	(87,018)	(87,018)	0
Imaging	9,659	10,530	(871)	7,421	6,427	994	29	28	1	18,959	18,959	0
New Business	40	21	19	311,237	333,518	(22,281)	45	50	(5)	2,986,151	2,986,151	0
Multimedia	3,413	3,787	(374)	61,874	83,972	(22,098)	48	74	(26)	378,778	378,778	0
White	3,401	3,008	393	62,812	54,208	8,604	85	70	15	683,643	683,643	0
Established Business	738	934	(196)	12,460	14,818	(2,358)	58	64	(6)	328,548	328,548	0
Keyboards	7,517	6,508	1,012	221,504	156,044	65,460	34	42	(8)	1,578,093	1,578,093	0
Mouse/Point	2,807	638	1,871	54,055	18,215	35,840	46	35	11	495,837	495,837	0
Gaming Devices	10,763	6,078	2,887	266,019	168,875	97,144	37	43	(6)	2,394,278	2,394,278	0
Hardware	23,783	28,420	(4,637)	501,808	578,589	(76,781)	42	48	(6)	8,480,848	8,480,848	0
Consumer	85	7	78	4,781	343	4,438	14	18	(4)	180,445	180,445	0
Personal Finance												
MSN - Data												
MSN - Connectivity												
MSN - Extended												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Content	444,681	333,487	111,193	2,982,160	1,980,868	1,001,292	190	176	14	13,151,182	13,151,182	0

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APPENDIX - FYTD96 FAR EAST FINISHED GOODS REVENUE SUMMARY

Q96-3

FYTD96 FAR EAST FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFYTD (USD)	
	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Licenses	Raw/Lic
MS HQS	1,284	409	845	6,090	16,398	227%	47	91	(44)	844,127	35
Windows, WW	8,144	1,061	7,083	23,954	95,504	399%	68	44	24	2,413,190	47
Windows 95	69,995	52,145	37,850	540,738	384,350	71%	96	96	0	3,730,771	84
MS Print (Printing)	10,828	4,134	12,694	88,713	347,393	401%	38	48	(10)	1,086,759	36
Other PSD (N Work, Telephony)	670	2	674	14,862	26,615	180%	49	53	(4)	41,983	7
Personal Systems Division	118,000	67,152	50,140	659,538	860,457	130%	77	88	(11)	7,796,810	82
Windows NT Workstation	15,764	7,780	7,974	43,430	81,345	141%	178	178	0	209,215	182
Windows NT Server - Servers	18,420	10,007	8,413	31,688	1,428	6%	858	524	332	95,773	514
Windows NT Server - Users	10,619	5,541	5,078	488,427	289,254	81%	22	21	1	1,187,149	15
SQL Server - Servers	10,035	8,285	2,371	14,138	10,875	78%	84	89	(5)	16,731	638
SQL Server - Users	8,612	7,851	801	86,206	4,732	5%	84	89	(5)	131,386	83
Workoffice - Servers	1,612	519	1,393	2,890	1,278	43%	1,215	1,740	(525)	7,779	1,058
Workoffice - Users	2,071	603	2,068	31,258	28,269	91%	85	202	(116)	200,707	83
Mail - Servers	2,617	3,582	(1,965)	7,773	9,444	(181%)	382	378	4	34,804	268
Mail - Users	701	2,487	(1,786)	17,109	49,563	(290%)	41	50	(9)	224,426	19
Exchange - Servers	1,815	1,371	445	3,901	8,159	209%	184	381	(197)	271,686	70
Exchange - Users	16	43	(27)	38	(38)	(100%)	418	418	0	1,504	1,802
SMS Server - Servers	3,171	1,111	2,059	2,660	3,863	(45%)	480	418	62	8,324	386
SMS Server - Users	3,427	1,882	1,748	43,782	72,549	166%	29	38	(9)	814,841	20
SNA Server - Servers	390	524	(134)	1,163	(213)	(184%)	335	365	(30)	15,969	97
SNA Server - Users	475	833	(358)	12,654	(1,114)	(9%)	41	50	(9)	124,450	28
Other Business Systems	6,279	597	5,682	7,200	86	83%	851	82	769	8,621	3,816
Business Systems New Users	87,019	59,039	28,580	87,853	368,903	419%	33	102	(69)	3,189,765	78
Windows NT Workstation	478	572	(94)	14,943	16,583	(10%)	32	34	(2)	177,272	71
Windows NT Server - Servers	576	353	222	4,898	(3,071)	(63%)	354	75	279	53,087	80
SQL Server - Servers	1,227	914	312	3,659	2,871	27%	335	319	17	8,206	230
SQL Server - Users	743	614	129	11,617	10,890	7%	84	86	(2)	78,155	36
Exchange - Servers											
Exchange - Users											
Other Business Systems	(1)	209	(210)	9,003	(8,997)	(100%)	(135)	23	(158)	647	86
Business Systems Existing Users	3,023	2,683	359	44,048	(12,191)	(28%)	85	60	24	318,427	65
Business Systems - Total	90,641	61,702	28,939	820,898	354,712	57%	83	99	(16)	3,518,212	77
Visual Basic	35,074	22,540	13,085	148,504	98,635	46%	240	228	12	302,872	145
Fort	2,402	3,455	(973)	23,818	(6,200)	(26%)	171	145	25	103,870	170
Fox	26,326	33,063	(7,737)	70,124	(2,887)	(4%)	320	403	(83)	214,320	148
MSDN	6,010	3,819	1,936	10,492	7,082	48%	535	681	(146)	91,163	482
Other Developer Products	7,958	1,088	6,809	22,087	5,451	25%	300	200	100	84,400	257
Developer	77,000	64,140	12,854	274,763	218,005	26%	280	204	76	750,003	184
ACT - Software											
ACT - Other											
Intel/Workflows	26,440	183,801	(160,038)	1,408,440	1,211,987	(14%)	103	123	(20)	12,071,887	74
Total Product Group	729,120	817,080	(87,960)	5,395,587	3,395,308	39%	121	153	(32)	25,322,810	60
Press	25,720	45	25,675	112,993	112,993	0%	228	228	0	252,342	105
Other (Mkt, MFR, Xent, OS2)	(6,501)	98	(6,599)								
(Including Int'l (International))	3,020	98	2,922								
(Including Int'l (recapitated))	751,814	517,240	234,574	5,845,580	3,389,308	24%	128	153	(25)	25,475,221	86
Gross Revenue											

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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APPENDIX - Q96-3 OEM REVENUE SUMMARY

Q96-3 OEM REVENUE SUMMARY
(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY98 US\$ (YTD) (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	License	Revenue	Revenue
Office	7,500	21,601	(14,359)	69,369	279,567	(209,178)	100	78	30	1,498,976	209	213
Office Professional	44,141		44,141	653,321		653,321	80		80	1,315,983		213
Excel	6,550	69	6,480	178,854	330	178,524	37	210	(173)	221,785	154	154
Word	6,775	498	6,277	321,302	18,330	305,022	27	31	(4)	391,085	138	138
Powerpoint	33		33	1,002		1,002	33		33	78,185		189
Access	900	251	649	40,008	10,000	30,008	25	23	2	260,283	148	148
Project	(12)		(12)	(13)		(13)	931		931	216,165	283	283
Other Desktop Apps	30		30	11,051		11,051	3		3	65,287	39	39
Desktop Apps New Users	68,022	22,079	45,343	1,175,402	308,127	868,275	58	74	(16)	4,044,042	197	197
Office										1,192,847	147	147
Office Professional										589,172	170	170
Excel										227,740	74	74
Word										294,924	75	75
Powerpoint										41,539	70	70
Access										78,852	55	55
Project										82,508	103	103
Other Desktop Apps										175	55	55
Desktop Apps Existing Users										2,555,857	137	137
Desktop Apps - Total	68,022	22,079	45,343	1,175,402	308,127	868,275	58	74	(16)	4,044,042	197	197
Kids	2,530	1,588	960	788,864	284,132	472,832	3	5	(2)	6,849,899	172	172
Entertainment	2,594	2,414	180	1,887,749	851,338	1,216,413	1	4	(3)	1,301,222	26	26
Personal Interests	2,389	2,414	(25)	680,480	399,186	281,264	4	6	(2)	284,224	25	25
Geo/Travel	309		309	40,221		40,221	8		8	251,771	37	37
Reference	10,483	7,893	2,791	2,432,744	1,246,803	1,185,941	4	6	(2)	828,306	39	39
Books	1,388	486	902	284,058	84,190	200,868	5	6	(1)	(87,018)	47	47
Imaging	520	121	400	488,113	63,024	403,089	1	2	(1)	18,959	9	9
New Business	20,200	14,697	5,504	6,546,310	2,738,081	3,808,229	3	3	(0)	2,980,151	20	20
Publisher	2,518	983	1,555	441,100	83,885	357,215	6	11	(5)	378,778	53	53
Wwws	20,876	11,852	9,024	8,815,388	1,889,592	6,925,796	4	7	(3)	683,043	35	35
Established Business	31,394	12,815	18,479	7,256,548	1,889,477	5,367,071	4	8	(4)	1,000,421	41	41
Keyboards	4,095	8,378	(4,283)	87,523	280,415	(202,892)	47	32	15	328,548	74	74
Mouse/Joystick	31,927	28,557	3,370	3,435,027	3,133,733	301,294	10	6	4	1,978,093	41	41
Gaming Devices	70		70	2,873		2,873	28		28	485,837	43	43
Hardware	38,101	35,880	2,218	3,525,423	3,424,148	101,275	11	10	1	2,394,278	40	40
Consumer	68,096	63,488	4,608	17,330,281	7,852,308	9,477,973	5	8	(3)	6,440,848	37	37
Personal Finance	1,444		1,444	1,070,839		1,070,839	1		1	160,445	20	20
MSN - Basic	73		73	3,043		3,043	24		24			
MSN - Connectivity												
MSN - Extended												
MSN - Internal												
Microsoft Network (MSN)	73		73	3,043		3,043	24		24			
Total Apps/Content	188,234	86,177	75,058	19,579,505	8,158,433	11,421,132	8	11	(3)	13,151,182	104	104

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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Q96-3 OEM REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY99 US\$ YTD (USD)		
	Actual	Unadj.	Variance	Actual	Unadj.	Variance	Actual	Unadj.	Variance	Licenses	Revenue	
MIS-DOB	80,674	107,637	(20,963)	6,007,630	6,043,604	(378,974)	17	18	(1)	644,127	35	
Windows NTW	114,071	123,023	(8,952)	8,411,072	8,551,499	(140,427)	21	21	0	2,413,190	47	
Windows 95	332,975	224,080	108,895	7,407,250	8,241,101	(833,851)	48	43	5	3,730,771	84	
MS Mail (Frosting)	84	84	0	15,028	15,028	0	5	5	0	1,060,759	30	
Other PSD (All Work, Telephony)	7,170	1,195	5,975	594,421	78,001	515,420	12	15	(3)	41,983	7	
Personal Systems Division	501,081	457,041	44,040	18,490,709	17,215,095	1,261,814	30	27	3	7,790,810	82	
Windows NT Workstation	0,178	1,552	(1,374)	54,414	18,395	36,019	114	84	30	268,215	18	
Windows NT Server - Servers	0,318	3,985	(3,667)	19,857	9,649	9,208	335	413	(78)	95,773	514	
Windows NT Server - Users	932	27	905	557	102	455	955	282	673	1,187,149	15	
SQL Server - Servers	404	404	0	818	918	(918)	505	505	0	16,731	636	
SQL Server - Users	10	10	0	44	44	0	225	225	0	131,308	83	
Mail - Servers	12	12	0	810	810	0	15	15	0	200,707	83	
Mail - Users	12	12	0	83	83	0	140	140	0	34,804	288	
Mail - AddOns, Upgrades	0	0	0	0	0	0	0	0	0	224,428	19	
Exchange - Servers	0	0	0	0	0	0	0	0	0	271,898	70	
Exchange - Users	0	0	0	0	0	0	0	0	0	1,594	1,802	
BMS Server - Servers	67	67	0	402	402	0	188	188	0	8,370	47	
BMS Server - Users	2	2	0	7	7	0	370	370	0	6,324	388	
BNA Server - Servers	0	0	0	0	0	0	0	0	0	614,841	20	
BNA Server - Users	0	0	0	0	0	0	0	0	0	15,989	97	
Other Business Systems	4,539	1,842	2,697	40,818	11,078	29,740	112	148	(36)	124,450	28	
Business Systems New Users	18,135	7,208	10,928	118,708	39,224	77,484	155	184	(28)	3,189,765	78	
Windows NT Workstation	0	0	0	0	0	0	0	0	0	177,272	71	
Windows NT Server - Servers	0	0	0	0	0	0	0	0	0	63,087	60	
Windows NT Server - Users	0	0	0	0	0	0	0	0	0	6,268	230	
SQL Server - Servers	0	0	0	0	0	0	0	0	0	79,155	36	
SQL Server - Users	0	0	0	0	0	0	0	0	0	0	0	
Exchange - Servers	0	0	0	0	0	0	0	0	0	0	0	
Exchange - Users	0	0	0	0	0	0	0	0	0	0	0	
Other Business Systems	0	0	0	0	0	0	0	0	0	0	0	
Business Systems Existing Users	16,135	7,200	8,935	118,708	39,224	77,484	155	184	(28)	3,189,765	78	
Business Systems - Total	42	42	0	230	230	0	177	177	0	302,822	145	
Visual Basic	05	05	0	8,811	8,811	0	10	10	0	103,870	170	
Fort	0	0	0	0	0	0	0	0	0	214,320	148	
C++	0	0	0	0	0	0	0	0	0	61,153	482	
MSDN	20	20	0	203,098	203,098	0	0	0	0	84,400	257	
Other Developer Products	163	153	10	212,115	212,115	0	1	1	0	786,063	184	
Developer	0	0	0	0	0	0	0	0	0	0	0	
ACT - Software	0	0	0	0	0	0	0	0	0	0	0	
ACT - Other	0	0	0	0	0	0	0	0	0	0	0	
Total Platforms	678,309	484,247	194,062	18,825,532	17,264,319	1,571,213	31	27	4	12,071,867	74	
Total Product Group	738,603	350,424	388,179	38,403,097	25,412,762	12,990,335	19	22	(2)	25,222,819	90	
Print	(7,874)	0,000	(7,874)	2,131,110	201,262	1,929,848	(4)	28	(20)	262,342	105	
Other (Misc, MFG, Xerox, ORS)	0	0	0	0	0	0	0	0	0	0	0	
Recurring Mkt (Internal)	0	0	0	0	0	0	0	0	0	0	0	
Recurring Mkt (Recognized)	0	0	0	0	0	0	0	0	0	0	0	
Gross Revenue	731,029	557,283	173,737	40,536,215	25,674,024	14,862,181	18	22	(4)	25,275,231	88	

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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FYTD96 OEM REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USEFO YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Office Professional	13,451	63,130	(49,680)	78%	109,955	812,233	(703,278)	88%	122	78	45	56%
Office Professional	101,277	-	101,277	715%	1,224,582	-	1,224,582	63	83	63	56%	
Facel	10,095	2,048	14,038	450%	487,123	20,490	466,633	1739%	34	77	(43)	(56%)
Word	19,234	3,407	15,738	450%	728,505	77,990	650,515	834%	20	45	(18)	(41%)
Powerpoint	139	-	139	-	3,076	-	3,076	-	30	-	30	-
Access	3,400	799	2,601	325%	141,006	29,800	111,206	376%	24	27	(3)	(11%)
Project	61	-	61	-	24,193	-	24,193	-	292	-	292	-
Other Desktop Apps	154,233	69,474	84,759	122%	2,719,081	947,313	1,771,768	187%	37	73	(17)	(23%)
Desktop Apps New Users	(0)	-	(0)	-	(30)	-	(30)	-	270	-	270	-
Office Professional	(1)	-	(1)	-	(28)	-	(28)	-	42	-	42	-
Facel	(0)	-	(0)	-	(21)	-	(21)	-	5	-	5	-
Word	(2)	-	(2)	-	(69)	-	(69)	-	25	-	25	-
Access	(0)	-	(0)	-	(2)	-	(2)	-	5	-	5	-
Project	(11)	-	(11)	-	(150)	-	(150)	-	72	-	72	-
Other Desktop Apps	154,222	69,474	84,748	122%	2,718,825	947,313	1,771,512	187%	67	73	(17)	(23%)
Desktop Apps Existing Users	6,478	4,545	1,933	42%	1,994,845	871,846	1,320,997	168%	3	7	(4)	(57%)
Entertainment	6,173	6,993	(819)	(12%)	3,855,701	1,492,254	2,363,447	159%	2	6	(4)	(68%)
Personal Interest	5,593	6,993	(1,410)	(20%)	1,551,211	814,568	636,643	70%	4	9	(4)	(53%)
Geo/Travel	381	-	381	-	40,216	-	40,216	-	6	-	6	-
Reference	20,374	20,115	259	31%	4,920,880	2,780,028	2,040,834	73%	6	7	(2)	(24%)
Image	2,574	1,407	1,167	83%	501,540	192,833	308,707	160%	5	7	(2)	(20%)
New Business	1,408	350	1,058	328%	1,387,909	144,385	1,223,524	847%	1	2	(1)	(55%)
Product	49,050	40,402	8,648	21%	14,140,984	6,187,814	7,953,070	328%	3	7	(3)	(41%)
Market	6,478	2,909	3,569	81%	883,809	207,228	676,583	326%	6	14	(8)	(58%)
Value	60,130	34,064	26,067	72%	9,777,148	3,922,479	6,854,667	148%	6	8	(2)	(31%)
Finished Business	10,545	14,890	(4,345)	(29%)	10,860,955	4,122,705	6,537,250	158%	6	8	(2)	(33%)
Mouse/Joystick	95,809	75,424	20,386	27%	231,491	444,212	(212,721)	(48%)	46	34	12	36%
Scanning Devices	79	-	79	-	8,846,154	8,776,746	1,069,408	12%	10	9	1	13%
Hardware	100,433	90,319	10,114	18%	10,080,518	9,220,958	859,560	9%	11	10	1	6%
Consumer	215,614	105,885	109,729	30%	34,882,457	18,548,577	15,333,880	76%	6	8	(2)	(27%)
Personal Finance	2,002	-	2,002	-	1,829,849	-	1,829,849	-	2	-	2	-
MSN - Health	73	-	73	-	3,043	-	3,043	-	24	-	24	-
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Instant	-	-	-	-	-	-	-	-	-	-	-	-
Microsoft Network (MSN)	73	-	73	-	3,043	-	3,043	-	24	-	24	-
Total Apps/Content	372,711	235,169	137,542	58%	38,154,274	20,485,880	18,938,394	92%	9	11	(2)	(18%)

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APPENDIX - FYTD96 OEM REVENUE SUMMARY

Q96-3

FYTD96 OEM REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFO YTD(US\$)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
MS-DOS	395,273	402,205	(8,932)	24,008,025	23,156,042	849,083	16	17	(1)	544,127	544,127	35
Windows, NTW	493,809	400,184	93,625	23,053,871	22,048,079	1,005,792	21	21	0	2,413,190	2,413,190	47
Windows 95	610,322	500,100	110,222	12,032,053	6,847,424	5,184,629	48	44	4	3,750,771	3,750,771	84
MS Plus (Testing)	84	-	84	15,828	-	15,828	5	-	5	1,008,759	1,008,759	38
Other PSD (AI Work, Telephony)	15,811	4,209	11,602	1,008,250	260,204	1,348,046	10	16	(7)	41,863	41,863	7
Personal Systems Division	1,515,560	1,176,824	338,736	62,317,827	53,115,249	9,202,578	24	22	2	7,769,810	7,769,810	62
Windows NT Workstation	11,783	4,498	7,285	110,631	53,391	57,240	107	84	22	269,215	269,215	192
Windows NT Server - Servers	14,008	10,901	3,107	42,027	20,408	15,620	349	418	(97)	95,773	95,773	614
Windows NT Server - Users	1,404	68	1,336	3,436	279	3,157	426	242	184	1,197,149	1,197,149	15
SQL Server - Servers	484	-	484	918	-	918	505	-	505	7,779	7,779	1,058
Exchange - Servers	50	-	50	201	-	201	191	-	191	200,707	200,707	83
Mail - Servers	45	-	45	1,177	-	1,177	38	-	38	34,804	34,804	286
Mail - Users	48	-	48	563	-	563	85	-	85	224,428	224,428	19
Mail - AddOns, Upgrades	-	-	-	-	-	-	-	-	-	271,890	271,890	70
Exchange - Users	310	-	310	935	-	935	332	-	332	1,564	1,564	1,802
SMS Server - Servers	2	-	2	7	-	7	270	-	270	8,370	8,370	47
SMS Server - Users	19,095	5,484	13,611	113,928	36,888	77,040	132	149	(17)	8,324	8,324	306
Other Business Systems	43,848	21,021	22,827	273,893	118,748	155,145	180	180	0	614,841	614,841	20
Windows NT Workstation	-	-	-	-	-	-	-	-	-	124,450	124,450	28
Windows NT Server - Servers	-	-	-	-	-	-	-	-	-	15,969	15,969	97
SQL Server - Servers	-	-	-	-	-	-	-	-	-	8,621	8,621	78
Exchange - Servers	-	-	-	-	-	-	-	-	-	177,272	177,272	71
Exchange - Users	-	-	-	-	-	-	-	-	-	63,087	63,087	60
Other Business Systems	-	-	-	-	-	-	-	-	-	8,266	8,266	230
Business Systems - Total	43,848	21,021	22,827	273,893	118,748	155,145	180	180	0	79,155	79,155	38
Visual Basic	66	-	66	553	-	553	159	-	159	-	-	-
Fort	223	45	178	15,332	1,000	14,332	15	28	(13)	-	-	-
C++	81	-	81	470,224	-	470,224	0	-	0	-	-	-
Other Developer Products	360	43	317	496,144	1,000	495,144	1	28	(27)	647	647	88
Developer	-	-	-	-	-	-	-	-	-	318,277	318,277	65
ACT - Software	-	-	-	-	-	-	-	-	-	3,518,212	3,518,212	77
ACT - Other	-	-	-	-	-	-	-	-	-	302,922	302,922	145
Total/Windows	1,639,809	1,100,800	539,009	63,077,804	53,333,695	9,744,109	180	180	0	103,870	103,870	170
Total/Products (Group)	1,432,608	1,433,050	(442)	102,312,130	73,728,405	28,583,725	159	159	0	214,320	214,320	146
Press	-	-	-	-	-	-	-	-	-	61,153	61,153	482
Other (Man, MEB, Xenix, OS2)	34,390	17,026	17,364	6,074,474	1,069,897	5,004,577	6	16	(10)	84,000	84,000	257
Recycling Mkt (deferrals)	(70)	-	(70)	106,508,812	74,766,382	31,742,430	18	18	0	758,085	758,085	184
Recycling Mkt (recognized)	-	-	-	-	-	-	-	-	-	-	-	-
Gross Revenue	1,000,028	1,418,070	(418,042)	106,508,812	74,766,382	31,742,430	18	18	0	252,342	252,342	105

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Q96-3 CHANNEL P&L
(\$ in thousands)

	North America		Europe		Asia/Pac		Latin Am		Total		Advanced Technology		Total	%	
	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses			
Rev from Revenue	510,118	408,284	122,878	293,523	1,392,604	87.6%	732,497	20,984	3,331	2,168,688	91.8%	8,331	2,168,688	91.8%	
Revenue Adjustments	60,008	101,813	3,744	(8,307)	193,740	12.2%	(5,245)	(1,181)	3,807	190,217	8.1%	3,807	190,217	8.1%	
Net Revenue	600,816	509,998	126,622	285,216	1,586,344	100.0%	727,252	18,803	7,138	2,358,905	100.0%	7,138	2,358,905	100.0%	
Cost of Revenue:															
Standard Product Costs	42,703	22,040	10,390	19,632	84,825	6.6%	18,659	0	448	117,722	5.0%	448	117,722	5.0%	
Non-product Costs of Revenue	51,981	49,943	25,517	13,494	140,815	8.9%	13,510	34,575	495	193,535	8.2%	495	193,535	8.2%	
Cost of Revenue	94,724	71,983	35,907	33,126	225,740	14.5%	32,169	34,575	943	311,257	13.2%	943	311,257	13.2%	
Gross Margin	612,092	498,015	90,715	252,090	1,360,604	85.5%	695,083	15,228	6,195	2,047,648	86.8%	6,195	2,047,648	86.8%	
% of Net Revenue	64.4%	67.3%	71.8%	86.4%			95.6%	76.4%	86.9%			86.9%			
Controllable Expenses															
Direct Expenses:															
People	42,815	41,968	14,426	12,079	111,307	7.0%	7,389	1,297	5,504	127,871	5.4%	5,504	127,871	5.4%	
Infrastructure	14,374	12,668	4,974	3,800	35,717	2.3%	1,652	330	191	36,835	1.6%	191	36,835	1.6%	
Other Misc Expenses	5,984	3,853	2,758	1,978	14,573	0.9%	17,494	783	922	35,268	1.5%	922	35,268	1.5%	
Direct Expenses	63,273	58,590	22,158	17,857	161,617	10.2%	26,515	3,002	7,312	201,712	8.5%	7,312	201,712	8.5%	
Marketing	95,991	52,519	10,937	15,407	174,955	11.0%	4,187	4,544	3,268	188,963	8.0%	3,268	188,963	8.0%	
Marketing Recovery	(21,673)	(8,190)	(1,105)	(4,472)	(35,440)	(2.2%)	(263)	0	(775)	(36,478)	(1.5%)	(775)	(36,478)	(1.5%)	
Road Reach	0	0	0	0	0	0.0%	0	0	0	0	0.0%	0	0	0.0%	
Marketing	74,318	44,329	9,832	10,935	139,415	8.8%	3,924	4,544	2,493	152,485	6.5%	2,493	152,485	6.5%	
Distributions:															
MCS Costs	25,964	11,197	2,882	979	41,022	2.6%	0	0	105	41,128	1.7%	105	41,128	1.7%	
MCS Revenue	(27,754)	(11,317)	(2,078)	(998)	(41,347)	(2.6%)	0	0	17	(41,529)	(1.8%)	17	(41,529)	(1.8%)	
OSA Costs	702	9,485	2,830	2,232	15,049	0.9%	601	107	375	16,188	0.7%	375	16,188	0.7%	
PSS Costs	80,099	31,753	4,975	14,185	131,012	8.3%	3,159	7,111	502	141,784	6.0%	502	141,784	6.0%	
PSS Revenue	(16,193)	(7,091)	(1,049)	(1,878)	(28,010)	(1.8%)	(225)	(3)	(2)	(28,241)	(1.2%)	(2)	(28,241)	(1.2%)	
Distributions	60,819	34,027	7,300	15,320	117,528	7.4%	3,535	7,184	998	129,330	5.5%	998	129,330	5.5%	
Total Controllable Expenses	190,411	130,740	39,350	44,112	418,818	26.4%	33,974	8,323	14,710	10,903	483,567	20.5%	14,710	483,567	20.5%
Responsibility Margin	313,481	359,189	91,188	207,878	931,994	58.8%	681,009	4,887	(28,492)	1,618,341	68.3%	(28,492)	1,618,341	68.3%	
% of Net Revenue	61.7%	62.2%	69.6%	72.9%			93.6%	76.4%	81.6%			81.6%			
Shared Resources:															
Shared Resources-In	18,103	15,899	7,807	2,518	44,327	2.8%	2,293	3,080	0	49,681	2.1%	0	49,681	2.1%	
Shared Resources-Out	0	(5,509)	(9,101)	(600)	(12,211)	(0.8%)	(2,180)	0	0	(14,391)	(0.6%)	0	(14,391)	(0.6%)	
Shared Resources	18,103	10,390	1,706	1,918	32,116	2.0%	113	3,080	0	35,290	1.5%	0	35,290	1.5%	
Corporate Allocations	122,009	95,834	27,007	34,734	279,384	17.6%	118,022	2,701	10,244	433,828	18.4%	10,244	433,828	18.4%	
Contribution Margin	173,870	282,148	22,482	171,327	688,483	39.1%	643,876	1,987	(64,031)	1,088,244	46.4%	(64,031)	1,088,244	46.4%	
% of Net Revenue	28.6%	44.6%	17.6%	60.1%			74.7%	71.0%	(108.3%)			(108.3%)			
Shared Resources-In															
BRT In-PSS Corp	742	1,628	284	528	3,178	0.2%	0	3,080	0	6,258	0.3%	0	6,258	0.3%	
BRT In-VIP Corp	4,416	2,169	636	743	7,004	0.5%	1,953	0	0	8,957	0.4%	0	8,957	0.4%	
BRT In-US B&M	0	0	0	0	0	0.0%	0	0	0	0	0.0%	0	0	0.0%	
BRT In-Flag Dir RTRQ	0	6,034	6,101	600	12,735	0.8%	340	0	0	13,075	0.6%	0	13,075	0.6%	
BRT In-MCS Corp	1,070	5,893	534	578	18,878	1.2%	0	0	0	1,772	0.1%	0	1,772	0.1%	
BRT In-Shared Reach	11,875	5,893	534	578	18,878	1.2%	0	0	0	18,878	0.8%	0	18,878	0.8%	
Shared Resources-In	18,103	15,899	7,807	2,518	44,327	2.8%	2,293	3,080	0	49,681	2.1%	0	49,681	2.1%	

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FYTD96 CHANNEL P&L
(\$ in thousands)

	Finished Goods				Total WWFG	%	WWOEM	Prod	Online	Advanced Technology	Total	%
	North America	Europe	ICON	Fin Est								
Rev Run Revenue	2,343,701	1,012,165	453,289	761,914	6,371,009	114.6%	1,904,979	69,798	31,136	22,800	7,460,721	111.3%
Revenue Adjustments	(992,808)	(150,371)	(55,993)	(91,640)	(890,473)	(14.8%)	(59,300)	(9,358)	(1,238)	1,460	(758,968)	(11.3%)
Net Revenue	1,350,893	861,794	397,296	670,274	5,480,536	100.0%	1,907,688	60,440	29,900	24,340	6,702,764	100.0%
Cost of Revenue:												
Standard Product Costs	102,009	81,410	39,452	55,295	337,765	7.2%	50,068	15,935	0	3,170	406,908	6.1%
Non-product Costs of Revenue	215,457	133,918	48,784	32,693	428,839	9.2%	43,007	11,440	77,382	1,067	562,359	8.4%
Cost of Revenue	317,466	215,328	88,236	87,988	766,604	19.4%	93,133	27,375	77,382	4,766	868,302	12.9%
Gross Margin	1,033,427	646,466	309,060	582,286	4,713,932	83.6%	1,814,555	33,065	(47,482)	19,473	6,834,462	81.9%
% of Net Revenue	60.7%	67.0%	78.6%	87.7%			95.1%		(168.0%)	66.3%		
Consolidable Expenses												
Direct Expenses:												
People	123,860	120,905	42,089	36,098	323,012	6.9%	21,276	5,867	3,300	14,432	367,911	5.5%
Infrastructure	41,033	35,207	14,159	12,564	102,963	2.2%	4,822	998	833	2,700	112,018	1.7%
Other Misc Expenses	23,514	13,937	12,896	5,136	55,483	1.2%	64,513	9,311	2,050	1,369	115,743	1.7%
Direct Expenses	188,407	170,109	69,144	53,798	481,457	10.3%	80,615	16,174	6,183	18,501	595,669	8.9%
Marketing	295,005	166,831	41,883	59,326	563,145	12.5%	9,004	8,096	7,619	8,218	612,864	9.2%
Marketing Recovery	(36,134)	(23,316)	(4,090)	(12,457)	(77,996)	(1.7%)	(211)	(354)	(9)	(775)	(79,347)	(1.2%)
Brand Reach	0	0	0	0	0	0.0%	0	0	0	0	0	0.0%
Marketing	258,871	163,615	37,793	46,869	505,149	10.8%	8,793	8,342	7,610	7,443	534,536	8.0%
Distributions:												
ABC Costs	66,002	26,729	8,002	2,665	103,399	2.3%	0	0	0	302	105,700	1.6%
ABC Revenue	(78,613)	(26,623)	(6,292)	(857)	(113,484)	(2.4%)	0	0	0	(218)	(113,702)	(1.7%)
GLA Costs	2,224	31,904	7,195	6,478	47,802	1.0%	2,151	248	173	731	51,105	0.8%
P&S Costs	243,185	101,154	15,530	38,302	398,151	8.5%	10,141	10,141	14,222	1,718	424,232	6.3%
P&S Revenue	(44,456)	(25,116)	(3,218)	(4,481)	(77,271)	(1.7%)	(736)	0	(2)	(18)	(78,034)	(1.2%)
Distributions	189,320	108,048	21,218	42,008	350,594	7.7%	11,550	748	14,391	2,515	389,301	5.8%
Total Consolidable Expenses	614,618	441,771	128,132	142,674	1,347,195	28.5%	100,863	14,997	27,831	28,460	1,518,508	22.7%
Responsibility Margin	948,148	1,004,898	184,328	429,821	2,106,787	64.8%	1,713,472	17,935	(73,321)	(6,987)	4,212,944	62.8%
% of Net Revenue	48.4%	60.8%	48.3%	68.1%			89.9%	28.7%	(93.0%)	(28.0%)		
Shared Resources:												
Shared Resources-In	86,895	71,915	21,307	10,996	201,272	4.3%	6,500	0	6,872	0	214,703	3.2%
Shared Resources-Out	0	(17,972)	(15,413)	(2,590)	(35,975)	(0.8%)	(6,264)	0	0	0	(41,839)	(0.6%)
Shared Resources	86,895	54,943	5,894	8,406	165,697	3.5%	286	0	6,872	0	172,864	2.6%
Corporate Allocations	320,632	256,105	72,491	93,275	740,503	16.0%	317,720	9,082	85,338	27,877	1,087,250	17.4%
Contribution Margin	832,822	884,883	168,883	319,939	1,882,887	38.3%	1,386,468	6,833	(147,882)	(38,884)	2,872,789	42.8%
% of Net Revenue	37.3%	41.8%	28.6%	48.6%			72.3%	16.1%	(93.6%)	(18.1%)		
Shared Resources-In												
Shared Resources-In	2,168	4,626	828	1,695	9,117	0.2%	0	0	6,872	0	15,989	0.2%
Shared Resources-Out	13,341	5,947	1,743	2,038	23,069	0.5%	5,578	0	0	0	28,647	0.4%
Shared Resources	15,509	10,573	2,571	3,733	32,186	0.7%	5,578	0	6,872	0	44,636	0.7%
Shared Resources	0	16,700	14,888	2,690	36,315	0.8%	992	0	0	0	37,350	0.6%
Shared Resources	2,032	979	621	177	4,359	0.1%	0	0	0	0	4,359	0.1%
Shared Resources	70,854	41,715	3,187	12,597	128,353	2.7%	0	0	0	0	128,353	1.9%
Shared Resources	80,995	71,913	21,367	18,598	201,272	4.3%	6,560	0	6,872	0	214,703	3.2%

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Q96-3 PRODUCT P&L
(\$ in thousands)

	Worldwide Applications/Content				Worldwide Platforms				Total		
	Desktop Apps	Personal Finance	MicroSoft On-Line	App/Content Mgmt/Research	Business Systems	Personal Onr Sys	Developer Sys	Consumer Sys		Other Op Systems	Platforms Mgmt
Gross Revenue	982,672	195,050	1,003	21,032	295,972	83,970	130,798	8,353	11,868	0	868,727
Revenue Adjustments	20,096	4,860	(314)	(1,820)	(11,028)	189,918	(9,799)	3,432	0	0	171,823
Net Revenue	1,003,268	200,610	1,689	19,212	284,944	203,888	121,000	11,785	11,868	0	1,411,359
Costs of Revenue:											
Standard Product Costs	41,169	47,000	193	0	7,609	10,304	7,382	485	(0)	0	25,869
Other Costs of Revenue	52,803	28,000	444	33,170	16,176	7,486	11,358	(301)	50	0	34,789
Product Specific Costs	11,274	8,908	(329)	1,427	5,998	9,104	1,734	173	841	0	17,909
Costs of Revenue	105,216	83,908	309	34,597	29,783	27,894	20,473	356	891	0	76,547
Gross Margin	898,052	116,702	1,241	(15,385)	255,161	176,014	100,527	11,400	10,977	0	1,334,812
% of Net Revenue	89.6%	88.0%	89.1%	(81.3%)	88.6%	86.3%	81.0%	95.9%	92.4%	0	93.1%
Operating Expenses:											
People	28,645	28,374	1,501	10,619	31,301	23,781	25,296	13,007	0	10,845	104,230
Infrastructure	9,053	7,534	393	4,100	10,717	6,690	6,717	4,196	0	2,921	31,541
Contingency Staff	4,320	13,910	150	4,033	8,143	4,684	3,722	2,250	0	988	20,785
Product Development	52,504	17,812	2,359	4,578	18,308	2,774	4,578	1,240	0	1,093	28,094
Marketing	407	1,168	1	744	29,697	31,729	10,485	2,549	0	0	74,460
Other	33,298	7,889	871	10,172	622	125	288	310	0	568	1,911
Product Support Services	2,384	1,528	58	408	14,272	36,041	14,810	852	(13)	0	87,963
Tax, Insurance & Settlement	5,738	1,353	20	1,108	464	8,917	128	87	431	63	10,091
Bad Debt Expense	8,509	2,302	483	(4,565)	1,652	6,499	681	129	117	0	9,078
R&D Shared Resources	150,498	199,358	8,105	39,271	7,105	1,394	(1,279)	2,208	0	(13,458)	(7,105)
Total Operating Expenses	747,864	6,887	(4,865)	(64,787)	89,748	87,388	28,093	(18,788)	10,281	(3,020)	721,718
Responsibility Margin	74,616	3,316	(12,816)	(297,191)	195,200	79,116	22,016	(7,003)	97,816	0	63,216
% of Net Revenue	74.6%	3.3%	(12.8%)	(297.1%)	88.4%	47.3%	22.0%	(14.0%)	97.8%	0	63.2%
Allocations	0	0	0	0	0	0	0	0	0	0	0
Under/Over Allocated	943,822	(39,028)	(8,002)	(62,821)	106,452	80,180	3,809	(33,823)	10,182	(3,300)	886,678
Contribution Margin	24,338	(39,028)	(8,002)	(62,821)	106,452	80,180	3,809	(33,823)	10,182	(3,300)	886,678
% of Net Revenue	2.4%	(19.5%)	(4.0%)	(327.3%)	37.3%	56.3%	3.1%	(23.6%)	87.2%	(2.3%)	62.8%

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Q96-3

FYTD96 PRODUCT P&L
(\$ in thousands)

	Worldwide Applications/Client				Worldwide Platforms				Total				
	Desktop Apps	Consumer	Personal Finance	Microsoft On-Line	App/Content Mgmt/Research	Total	Business Systems	Personal Oper Sys		Developer	Consumer Sys	Other Op Systems	Platforms Mgmt
Gross Revenue	3,003,758	661,145	11,903	31,188	0	3,768,053	772,975	2,461,306	324,939	22,903	31,846	0	3,813,951
Revenue Adjustments	(333,090)	(34,740)	(354)	(2,425)	0	(370,599)	(28,948)	(253,291)	(14,943)	1,310	(236)	0	(296,207)
Net Revenue	2,730,878	626,405	11,609	28,782	0	3,397,454	743,927	2,303,911	309,896	24,313	31,612	0	3,517,744
Costs of Revenue:													
Standard Product Costs	127,331	153,659	2,050	0	0	283,076	23,756	97,070	22,901	3,156	(0)	0	107,833
Other Costs of Revenue	149,334	81,412	1,684	74,732	0	307,141	30,286	71,992	26,876	294	127	0	131,375
Product Specific Costs	35,768	37,911	392	2,678	0	76,999	20,936	14,648	2,832	645	2,915	0	41,778
Costs of Revenue	312,433	273,012	4,112	77,360	0	666,917	74,976	144,460	54,209	4,095	3,041	0	280,784
Gross Margin	2,418,248	353,393	7,497	(48,899)	0	2,730,537	670,949	2,061,818	255,717	20,117	28,871	0	3,018,960
% of Net Revenue	88.6%	86.4%	64.6%	(169.0%)	0	80.4%	89.5%	92.6%	82.9%	83.1%	90.4%	0	91.6%
Operating Expenses													
Payroll	94,713	73,836	3,822	31,636	18,662	210,331	91,019	62,003	66,068	44,367	0	30,270	296,586
Infrastructure	28,179	20,545	1,012	11,721	3,598	63,059	30,022	12,718	18,938	14,840	0	8,227	89,544
Contingency Staff	9,548	36,452	361	10,732	859	57,753	24,159	12,818	9,103	7,444	0	2,781	56,005
Product Development	21,559	62,086	681	6,577	1,044	92,828	24,151	10,897	14,196	4,860	0	3,988	57,890
Marketing	198,651	74,758	5,755	7,665	63	286,992	72,695	131,818	30,882	7,334	(2)	0	242,807
Other	1,035	2,373	3	1,611	800	5,822	1,463	(289)	2,164	1,315	0	1,104	5,157
Product Support Services	98,817	23,495	1,740	21,098	0	145,148	48,162	123,188	48,114	2,329	(139)	0	217,655
Fac. Insurance & Software	8,824	4,563	71	518	19	12,015	2,662	29,141	500	200	1,081	159	33,772
R&D Dept Expenses	22,309	4,680	71	1,551	0	28,671	4,643	21,487	1,890	253	318	0	28,971
R&D Shared Resources	25,308	6,285	1,850	1,059	(12,452)	21,050	12,225	6,070	(3,386)	3,915	0	(43,244)	(21,690)
Total Operating Expenses	495,004	308,754	14,908	94,168	10,364	924,385	309,201	417,041	182,293	69,757	3,283	0	1,008,838
Responsibility Margin	1,833,182	43,839	(7,409)	(142,885)	(10,364)	1,804,172	361,748	1,644,493	68,423	(48,639)	27,313	(3,833)	2,034,124
% of Net Revenue	70.4%	7.0%	(64.6%)	(488.4%)	0	82.3%	48.8%	74.8%	21.4%	(17.8%)	86.4%	0	67.3%
Allocations	304,129	130,047	1,924	20,972	128	465,699	77,330	270,362	56,181	41,562	232	795	418,463
Under/Over Allocated	0	0	0	0	0	0	0	0	0	0	0	0	0
Contribution Margin	1,619,053	(88,008)	(8,313)	(163,237)	(10,822)	1,340,674	284,418	1,374,131	9,231	(108,821)	27,881	(4,078)	1,681,661
% of Net Revenue	81.3%	(14.3%)	(70.3%)	(586.3%)	(31.3%)	39.3%	37.1%	59.3%	2.7%	(31.7%)	75.3%	0	47.7%

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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Q96-3 RESULTS BY SALES LOCATION
(\$ in millions)

	Net Revenue		Gross Margin		Operating Expenses		Responsibility Margin		Contribution Margin	
	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan
	Finished Goods									
North America										
US (Redmond)	\$533.2	104.9%	\$465.0	107.2%	\$189.3	89.0%	\$276.7	124.8%	\$147.2	184.1%
Canada	\$53.6	130.6%	\$46.1	145.3%	\$9.1	83.3%	\$37.0	177.8%	\$26.3	277.1%
	\$606.8	106.8%	\$512.1	109.8%	\$198.4	88.7%	\$313.7	129.3%	\$173.5	194.0%
Europe										
Austria	\$0.2	95.4%	\$0.0	99.7%	\$2.7	90.0%	\$5.3	105.5%	\$3.2	108.4%
Belgium	\$17.7	115.4%	\$15.4	115.4%	\$4.6	109.0%	\$10.8	118.4%	\$7.5	125.7%
Czechoslovakia	\$5.6	101.4%	\$5.1	103.5%	\$1.4	103.3%	\$3.7	103.6%	\$2.9	116.8%
Denmark	\$12.2	84.8%	\$10.8	87.3%	\$1.7	65.7%	\$9.2	82.9%	\$6.5	88.0%
Eastern Europe	\$1.3	140.3%	\$1.1	146.7%	\$0.5	95.1%	\$0.7	233.1%	(\$1.8)	-304.9%
England	\$109.4	104.9%	\$96.1	107.3%	\$25.2	106.0%	\$70.9	107.7%	\$45.8	116.8%
Finland	\$11.2	103.3%	\$10.2	110.8%	\$1.5	82.7%	\$8.7	114.7%	\$7.0	117.5%
France	\$84.1	110.5%	\$74.5	111.0%	\$22.8	97.8%	\$51.7	118.2%	\$32.9	146.0%
Germany	\$141.9	112.7%	\$120.9	110.1%	\$28.2	93.9%	\$92.6	116.2%	\$66.6	135.6%
Hungary	\$2.5	79.2%	\$2.1	80.4%	\$1.4	117.9%	\$0.7	49.2%	\$0.1	17.2%
Italy	\$42.2	131.8%	\$37.3	133.5%	\$7.1	91.8%	\$30.2	149.9%	\$23.9	192.6%
Netherlands	\$27.7	144.6%	\$24.2	148.9%	\$5.4	98.7%	\$18.8	173.3%	\$14.9	208.8%
Norway	\$10.6	62.1%	\$9.2	61.8%	\$2.4	97.7%	\$6.9	54.6%	\$4.3	42.3%
Poland	\$3.3	80.0%	\$2.8	58.1%	\$1.4	102.5%	\$1.4	40.3%	\$0.7	28.9%
Portugal	\$7.4	115.3%	\$6.5	117.2%	\$1.7	112.9%	\$4.9	118.7%	\$3.7	123.9%
Russia	\$2.2	53.6%	\$1.7	48.8%	\$1.3	76.1%	\$0.4	21.4%	(\$0.2)	-22.9%
Slovakia	\$0.7	58.7%	\$0.6	55.4%	\$0.3	78.7%	\$0.3	45.0%	\$0.2	31.0%
Slovenia	\$0.9	64.5%	\$0.8	60.2%	\$0.4	99.2%	\$0.4	44.4%	\$0.3	39.4%
Spain	\$17.1	138.1%	\$15.1	144.5%	\$3.9	99.9%	\$11.2	171.2%	\$8.6	211.6%
Sweden	\$28.4	95.0%	\$26.0	96.8%	\$11.8	100.1%	\$14.2	94.2%	\$8.5	86.5%
Switzerland	\$31.1	108.4%	\$27.5	111.9%	\$4.8	65.0%	\$22.7	132.1%	\$16.7	151.4%
Europe Headquarters	\$0.0	nm	(\$0.0)	nm	\$6.6	93.1%	(\$6.6)	93.1%	(\$0.3)	nm
	\$567.9	106.2%	\$495.9	109.0%	\$136.9	96.0%	\$359.0	114.9%	\$253.0	126.7%
ICON										
Argentina	\$4.7	128.5%	\$3.8	131.5%	\$1.4	99.3%	\$2.4	162.3%	\$1.3	316.3%
Australia	\$30.3	81.0%	\$15.9	55.5%	\$6.9	82.5%	\$9.0	44.3%	(\$1.6)	-17.3%
Brazil	\$16.4	63.7%	\$12.1	54.5%	\$5.1	77.8%	\$7.0	44.7%	\$1.2	12.3%
Caribbean	\$3.2	101.7%	\$2.6	101.6%	\$0.8	82.0%	\$1.8	113.3%	\$1.1	124.3%
Chile	\$2.3	93.7%	\$1.7	86.5%	\$1.2	130.0%	\$0.6	50.8%	(\$0.2)	-61.9%
Colombia	\$5.0	107.1%	\$4.0	107.1%	\$1.2	79.3%	\$2.8	125.0%	\$1.5	165.3%
Ecuador	\$1.3	174.9%	\$1.2	197.4%	\$0.2	69.6%	\$1.0	313.2%	\$0.8	530.3%
Greece	\$1.7	104.9%	\$1.5	111.3%	\$0.4	91.8%	\$1.0	122.3%	\$0.7	141.3%
India	\$1.8	40.2%	\$1.1	31.9%	\$0.6	83.6%	\$0.5	18.0%	(\$0.3)	-15.1%
Indonesia	\$0.9	121.4%	\$0.8	123.8%	\$0.1	23.1%	\$0.7	295.0%	\$0.4	nm
Israel	\$3.7	90.5%	\$2.8	87.4%	\$1.0	107.4%	\$1.9	79.4%	\$1.0	69.2%
Malaysia	\$4.0	141.0%	\$3.0	140.1%	\$0.6	73.2%	\$2.5	178.1%	\$1.6	284.6%
Mexico	\$10.5	134.9%	\$8.7	138.0%	\$2.4	90.9%	\$6.3	172.1%	\$4.3	261.8%
Middle East	\$3.9	101.0%	\$3.1	103.4%	\$1.3	91.5%	\$1.8	114.2%	\$0.6	171.7%
Morocco	\$1.0	147.0%	\$0.8	171.4%	\$0.4	120.2%	\$0.5	269.3%	\$0.3	-649.7%
New Zealand	\$3.6	58.2%	\$1.3	27.4%	\$1.7	100.3%	(\$0.4)	-13.9%	(\$2.2)	-179.2%
Peru	\$2.0	133.3%	\$1.7	141.9%	\$0.5	114.7%	\$1.2	156.9%	\$0.9	203.0%
Philippines	\$0.7	75.8%	\$0.5	68.6%	\$0.3	88.6%	\$0.2	54.1%	\$0.0	10.9%
Singapore	\$8.1	136.4%	\$6.0	128.1%	\$1.6	106.4%	\$4.5	136.8%	\$3.1	158.9%
South Africa	\$11.3	102.4%	\$9.6	102.4%	\$3.3	104.5%	\$6.3	101.2%	\$3.7	104.7%
Thailand	\$4.0	119.6%	\$3.3	120.1%	\$0.6	90.9%	\$2.6	130.4%	\$1.9	142.7%
Turkey	\$1.6	105.4%	\$1.2	108.9%	\$0.7	135.5%	\$0.6	88.5%	\$0.3	80.5%
Uruguay	\$0.5	93.1%	\$0.4	95.4%	\$0.2	78.0%	\$0.2	111.8%	\$0.1	128.1%
Venezuela	\$2.2	82.1%	\$1.7	86.8%	\$0.6	89.2%	\$1.1	88.6%	\$0.6	81.3%
ICON VP	\$0.0	nm	\$0.0	nm	\$0.3	24.6%	(\$0.3)	24.6%	\$0.0	nm
Reg Dir - APAC	\$0.0	nm	\$0.0	nm	\$2.9	125.8%	(\$2.9)	125.8%	(\$0.0)	nm
Reg Dir - AME	\$0.0	nm	(\$0.0)	nm	\$1.1	65.1%	(\$1.1)	65.1%	(\$0.1)	nm
Reg Dir - Latin Amer	\$1.7	nm	\$1.7	nm	\$2.0	93.4%	(\$0.4)	17.5%	\$1.5	nm
	\$126.4	92.0%	\$90.5	82.2%	\$39.3	85.7%	\$51.2	77.2%	\$22.5	58.9%
Far East										
China	\$2.2	89.1%	\$1.8	97.7%	\$1.7	103.6%	\$0.1	44.6%	(\$0.4)	145.1%
Hong Kong	\$9.7	152.8%	\$8.3	156.8%	\$1.9	92.8%	\$6.5	195.3%	\$5.1	254.4%
Japan	\$255.5	96.7%	\$226.6	105.3%	\$35.0	85.1%	\$191.6	110.1%	\$160.1	116.0%
Korea	\$10.7	78.5%	\$9.3	85.3%	\$2.9	96.9%	\$6.4	80.9%	\$4.1	72.1%
Taiwan	\$7.1	72.9%	\$6.1	78.2%	\$2.1	57.7%	\$4.0	71.8%	\$2.3	58.9%
Far East Headquarter	\$0.0	nm	\$0.0	nm	\$0.6	52.2%	(\$0.6)	52.2%	\$0.0	0.0%
	\$265.2	96.2%	\$252.1	104.7%	\$44.1	86.5%	\$226.0	105.6%	\$171.3	114.7%

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FYTD96 RESULTS BY SALES LOCATION
(\$ in millions)

	Net Revenue		Gross Margin		Operating Expenses		Responsibility Margin		Contribution Margin	
	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan
	Finished Goods									
North America										
US (Redmond)	\$1,812.8	85.2%	\$1,464.5	83.1%	\$601.6	89.4%	\$862.9	85.9%	\$477.8	99.2%
Canada	\$148.0	93.3%	\$118.3	94.8%	\$33.1	90.8%	\$85.2	96.4%	\$54.8	99.3%
	\$1,960.8	85.1%	\$1,582.8	83.2%	\$634.6	89.4%	\$948.1	86.0%	\$532.6	99.2%
Europe										
Austria	\$33.1	105.0%	\$29.2	110.3%	\$9.2	89.9%	\$20.0	123.2%	\$14.2	140.3%
Belgium	\$53.4	108.9%	\$46.1	108.3%	\$14.8	107.6%	\$31.3	110.1%	\$22.6	117.3%
Czechoslovakia	\$22.9	156.8%	\$20.5	161.8%	\$4.3	96.0%	\$18.3	197.4%	\$13.5	274.2%
Denmark	\$40.1	102.5%	\$35.5	105.6%	\$7.6	88.5%	\$27.9	111.5%	\$20.8	118.6%
Eastern Europe	\$4.6	186.9%	\$4.0	185.6%	\$1.3	96.2%	\$2.7	407.7%	\$0.6	36.3%
England	\$310.8	88.4%	\$268.9	89.6%	\$87.4	104.3%	\$181.5	87.5%	\$111.0	100.7%
Finland	\$29.6	125.0%	\$26.7	135.2%	\$5.6	89.9%	\$21.2	149.1%	\$16.7	176.2%
France	\$241.2	94.8%	\$208.3	93.8%	\$71.7	96.3%	\$137.6	92.5%	\$81.8	94.9%
Germany	\$404.2	110.6%	\$349.7	109.9%	\$88.8	89.8%	\$260.9	119.0%	\$181.2	140.9%
Hungary	\$13.6	130.5%	\$12.0	137.5%	\$4.0	104.0%	\$7.9	164.3%	\$5.9	250.9%
Italy	\$123.6	123.6%	\$108.9	124.4%	\$20.4	84.2%	\$88.6	139.8%	\$65.2	161.9%
Netherlands	\$67.9	120.5%	\$57.4	123.3%	\$18.2	92.5%	\$38.3	145.8%	\$28.8	181.5%
Norway	\$35.0	96.6%	\$30.8	97.9%	\$7.5	96.2%	\$23.3	88.5%	\$16.3	100.2%
Poland	\$17.2	143.2%	\$15.0	148.8%	\$3.8	93.3%	\$11.2	186.3%	\$9.0	267.7%
Portugal	\$20.1	127.3%	\$17.6	131.4%	\$5.1	103.5%	\$12.5	147.8%	\$9.4	180.6%
Russia	\$9.1	91.4%	\$7.3	88.6%	\$4.1	86.2%	\$3.1	89.1%	\$1.2	99.5%
Slovakia	\$3.3	106.1%	\$2.9	109.1%	\$0.7	67.7%	\$2.2	137.6%	\$1.6	180.5%
Slovenia	\$3.7	175.4%	\$3.4	177.6%	\$1.0	86.2%	\$2.3	329.6%	\$2.0	810.7%
Spain	\$43.9	121.7%	\$38.3	127.1%	\$12.3	100.0%	\$26.0	145.7%	\$18.2	180.6%
Sweden	\$84.1	96.3%	\$73.7	99.7%	\$35.8	97.3%	\$37.9	102.1%	\$22.5	107.8%
Switzerland	\$100.3	111.2%	\$89.2	114.2%	\$19.6	82.3%	\$69.5	128.2%	\$51.9	143.9%
Europe Headquarters	\$0.0	nm	\$0.0	nm	\$18.5	88.7%	\$(18.5)	88.7%	\$(0.0)	nm
	\$1,661.8	106.9%	\$1,446.5	107.9%	\$441.8	94.7%	\$1,004.7	114.9%	\$694.2	128.2%
ICON										
Argentina	\$13.7	121.6%	\$11.3	127.8%	\$3.9	82.0%	\$7.4	161.3%	\$4.6	308.2%
Australia	\$108.1	89.4%	\$77.4	81.9%	\$27.9	99.1%	\$49.5	74.7%	\$20.2	59.7%
Brazil	\$43.8	60.3%	\$35.6	58.5%	\$20.1	104.0%	\$15.5	37.3%	\$(0.2)	-0.9%
Caribbean	\$8.1	110.1%	\$7.5	112.0%	\$2.3	78.8%	\$5.3	135.3%	\$3.4	186.6%
Chile	\$6.6	99.0%	\$6.9	97.7%	\$2.8	107.7%	\$4.0	91.7%	\$2.0	84.3%
Colombia	\$14.8	94.4%	\$12.6	88.7%	\$3.9	87.7%	\$6.7	104.5%	\$5.1	119.2%
Ecuador	\$2.9	153.8%	\$2.6	172.4%	\$0.6	71.7%	\$2.0	293.1%	\$1.6	693.9%
Greece	\$5.5	131.6%	\$4.6	142.8%	\$1.6	114.3%	\$3.0	165.2%	\$2.1	268.5%
India	\$9.9	97.0%	\$7.2	91.8%	\$2.2	96.0%	\$5.0	90.2%	\$2.9	92.4%
Indonesia	\$1.7	66.2%	\$1.3	61.5%	\$0.3	35.1%	\$1.0	81.0%	\$0.4	69.7%
Israel	\$10.0	111.7%	\$8.0	115.4%	\$2.5	82.7%	\$5.5	130.3%	\$3.2	195.7%
Malaysia	\$11.3	129.1%	\$9.1	133.2%	\$2.4	84.9%	\$6.7	166.5%	\$4.5	278.3%
Mexico	\$28.6	141.0%	\$24.0	148.9%	\$6.7	89.7%	\$17.3	199.8%	\$12.0	442.4%
Middle East	\$12.2	106.0%	\$9.8	111.9%	\$4.0	91.7%	\$5.8	131.8%	\$2.7	304.1%
Morocco	\$2.6	129.4%	\$2.2	160.5%	\$1.1	111.3%	\$1.1	230.0%	\$0.6	-413.8%
New Zealand	\$21.3	97.7%	\$15.1	90.4%	\$6.3	106.3%	\$8.8	81.7%	\$4.1	72.9%
Peru	\$5.9	140.9%	\$5.3	154.6%	\$1.6	112.6%	\$3.6	185.5%	\$2.7	291.2%
Philippines	\$2.4	89.5%	\$1.9	86.8%	\$1.0	100.8%	\$0.9	79.1%	\$0.4	65.4%
Singapore	\$21.4	117.8%	\$16.6	115.5%	\$4.8	109.5%	\$11.7	118.2%	\$8.1	136.3%
South Africa	\$33.7	110.8%	\$28.5	111.5%	\$10.2	111.6%	\$18.3	111.5%	\$11.5	132.5%
Thailand	\$13.0	151.0%	\$11.1	162.7%	\$1.9	82.7%	\$9.2	202.7%	\$7.3	296.5%
Turkey	\$6.7	168.1%	\$5.4	181.8%	\$1.8	103.3%	\$3.6	287.3%	\$2.8	886.6%
Uruguay	\$1.8	103.3%	\$1.4	105.2%	\$0.5	74.5%	\$0.9	138.6%	\$0.6	197.7%
Venezuela	\$6.6	110.4%	\$5.4	113.7%	\$1.9	97.4%	\$3.5	125.3%	\$2.0	174.1%
ICON VP	\$0.0	nm	\$0.0	nm	\$1.0	24.3%	\$(1.0)	24.3%	\$0.0	nm
Reg Dir - APAC	\$0.0	nm	\$0.0	nm	\$6.4	89.6%	\$(6.4)	89.6%	\$(0.1)	nm
Reg Dir - AME	\$0.0	nm	\$(0.0)	nm	\$2.7	76.5%	\$(2.7)	77.0%	\$(0.2)	nm
Reg Dir - Latin Ameri	\$1.8	nm	\$1.8	nm	\$5.8	89.0%	\$(4.0)	61.5%	\$1.6	nm
	\$397.7	98.0%	\$312.5	96.6%	\$128.1	84.9%	\$184.3	97.9%	\$106.9	100.9%
Far East										
China	\$4.8	95.9%	\$4.1	103.3%	\$4.3	86.7%	\$(0.2)	16.1%	\$(1.4)	61.4%
Hong Kong	\$26.5	139.2%	\$22.8	142.5%	\$6.2	100.0%	\$16.5	169.7%	\$12.9	218.7%
Japan	\$574.9	126.3%	\$499.7	147.5%	\$144.1	83.4%	\$365.6	190.9%	\$289.1	301.6%
Korea	\$34.2	110.3%	\$29.2	117.4%	\$8.6	83.3%	\$20.5	131.6%	\$14.2	159.6%
Taiwan	\$19.9	97.0%	\$16.5	100.9%	\$6.9	87.7%	\$9.6	123.3%	\$5.1	112.9%
Far East Headquarter	\$0.0	nm	\$(0.0)	nm	\$2.6	72.1%	\$(2.6)	72.1%	\$(0.0)	nm
	\$660.3	132.8%	\$572.3	143.0%	\$142.7	85.0%	\$429.6	165.0%	\$316.5	263.2%

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AUTHOR: JENNIFER ANDERSON (JENGA)

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MICROSOFT'S MANAGEMENT ACCOUNTING POLICIES AND MANAGEMENT REPORTING**MAP**

- Financial statements included herein are prepared in accordance with Microsoft's Management Accounting Policies and are intended for confidential internal use.
- Microsoft's Accounting Policies emphasize worldwide consistency among product, customer, geography, and cost center activities based on standard taxonomies for responsibility accounting for cost centers and marginal costs of incremental unit cost and revenue allocations which may not be relevant for external and regulatory reporting.
- Adjustments required by Generally Accepted Accounting Principles for external reporting may not be reflected in some of the detailed management views included in this report. Adjustments required for other statutory purposes or local purposes may also be omitted.
- If you have any comments, questions, or if you are interested in obtaining a copy of Microsoft's Management Accounting Policies, please email the "MAP" alias.

Management Reporting

- All management reports are available online and on the dedicated management reporting server located at \\sparrow\measure.
- The reports can be accessed via an Excel add-in reporting tool.
- If you have any questions or suggestions about the online financial management reports or the reporting tool, please email the "MRPT" alias.

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THE MICROSOFT FAMILY OF FUNDS

During Q95-4, Microsoft's cash investment portfolio was migrated into five distinct sub-portfolios - four fixed-income portfolios and one opportunity portfolio. Each portfolio is a separate mutual fund or risk bucket, with unique guidelines and risk/return expectations. Collectively, the portfolios are the Microsoft "Family of Funds".

With this strategy, MS is increasing the sophistication of our portfolio management efforts, focusing on Total Rate-of-Return portfolio management (as opposed to yield-to-maturity) and using duration as a risk management tool (instead of term-to-maturity).

The goals of this strategy are to:

- Segregate the cash portfolio into individual funds of a more manageable size.
- Enhance the total return on Microsoft's cash assets.
- Establish risk and return expectations for each Fund.
- Provide pro-active risk management of financial assets.
- Benchmark performance relative to market indices.
- Allow allocation of cash among the various risk segments of the short-term fixed-income market.

Following is a high level summary of the general guidelines of each Fund:

- Level 1: Money Market Fund - Designed to meet the operating cash requirements of MS Corporation, and other legal entities, MS MBV, MB IBV, and MS Puerto Rico, this fund has a targeted duration of 20-45 days and a maximum

maturity of 91 days. Little principal value fluctuation is expected. Benchmark: 30-Day US Treasury Bill.

- Level 2: Enhanced Money Market Fund - Designed as a secondary source of liquidity supporting the Money Market Fund, this fund has a maximum maturity of 13 months. The longer targeted duration of 2-6 months, will provide opportunity for increased return with a modest increase in risk. A small amount of principal value fluctuation is expected. Benchmark: 90-Day US Treasury Bill.
- Level 3: Short-term Fixed Income Fund - This fund will carry an increased focus on interest rate changes, security sectors and temporary market anomalies to provide the opportunity for returns above money market rates. Duration is further extended to a target of 1.25 to 2.25 years. Some principal value fluctuation is expected, and negative monthly total returns may occur occasionally. Benchmark: Merrill Lynch US Treasury 1 - 2.99 Yr. Index.
- Level 4: Intermediate Fixed Income Fund - An actively managed portfolio with a targeted duration of 2.5 to 4.0 years. This "short bond fund" will focus on the optimal security type, sector, and credit risk to achieve superior returns. Principal value fluctuation is expected. Months with negative returns will occur and an occasional negative quarter is possible. Benchmark: Merrill Lynch US Treasury 3-4.99 Yr. Index.
- Level 5: Opportunity Fund - This fund will seek investment opportunities that provide yield enhancement, meet tax-planning objectives, and mirror Microsoft's strategic investments and business relationships. This fund requires senior management approval of each transaction, and does not carry specific maturity constraint.

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AUTHOR: JACK JOLLEY (JACKJ)

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INVESTMENTS

Wang Laboratories, Inc.

(Financial information shown below is the most recent available)

	Three Months Ended		Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$216.5	\$292.5	\$76.0	35 %
Cost of revenue	\$146.6	\$194.8	\$48.2	33
Gross profit	\$69.9	\$97.7	\$27.8	40
Controllable expenses	\$67.7	\$94.2	\$26.5	39
Net income	\$2.2	\$3.5	\$1.3	59

- Wang continues to expand as a service provider and a developer of open systems software for NT. A smaller portion of revenues now comes from support for its terminated proprietary products. For the three months ended December 31, 1995, Wang's revenues increased 35% as product sales increased 11% and service revenue increased 56% primarily due to the acquisition of Bull's service business. EBITDA increased 68% from \$22 million to \$37 million.
- In April, Mike Brown joined the board of directors of Wang..
- Also in April, Wang announced the \$30 million acquisition of Dataserv from BellSouth. Dataserv had over \$100 million of revenue in 1995 from maintenance and support services.
- Last year, MS signed a broad technical, service, marketing, patent, and investment agreement with Wang. Under the agreement, Wang's desktop imaging and object controls will be incorporated in certain MS products. Additionally, the two companies are working together on the definition of work management APIs. Wang's structured workflow technology manages the routing and delivery of this data and documents. MS also designated Wang as its "preferred" vendor of imaging and workflow software and is engaging in co-marketing.
- The agreement also expands Wang's role in support services for MS products. MS is outsourcing some Office and Windows NT support and subcontracting MCS work.
- MS also purchased \$90 million face amount of 4.5% convertible preferred stock due in 2003 for \$84 million. The stock is convertible into Wang common at \$23 per share and represents -10% of Wang's common stock on a fully diluted basis. Wang's common was recently trading at approximately \$24 per share, up from \$13 per share at the time the deal was signed.

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AUTHOR: JEAN-FRANCOIS METZ (JEANF)

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Stac, Inc.

(Financial information shown below is the most recent available)

	Quarter Ended	Quarter Ended	Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$ 10.7	\$ 11.3	\$ 0.6	5 %
Cost of revenue	1.3	1.5	0.2	13
Gross profit	9.4	9.8	0.4	4
Controllable expenses	15.0	19.0	4.1	27
Net income	\$ (5.5)	\$ (9.2)	\$ (3.7)	66

- In June 1994, MS and Stac signed cross-license and investment agreements to end their disk compression patent dispute. MS agreed to pay Stac license royalties of \$1 million per month for 43 months. MS also purchased \$40 million of 4.0% convertible preferred stock, which was converted to common equity on November 9, 1995.
- Software accounted for under 40% of total revenue in the current quarter. Among other things, software revenue was adversely impacted by significant returns of ReachOut, Stacker and CD QuickShare.
- Controllable expenses in the current quarter include \$12 million of purchased R&D. Before this charge, net income would have been \$3.0 million. The year-ago quarter included purchased R&D expenses of about \$13 million.
- At a price of \$10.625, MS's 4,458,746 shares of Stac common stock have a market value of \$47 million.

Mobile Telecommunications Technologies Corporation (Mtel)

(Financial information shown below is the most recent available)

	Year Ended	Year Ended	Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$ 163	\$ 246	\$ 83	51 %
Operating expenses	166	252	97	58
EBITDA	(3)	(16)	(14)	540
Other expenses	(26)	(44)	(19)	73
Net income	\$ (28)	\$ (60)	\$ (32)	114

- Mtel, a leading provider of nationwide and alpha-numeric paging under the SkyTel brand, is developing the SkyTel 2-Way network. The SkyTel 2-Way development has caused a dramatic increase in operating expenses and capital expenditures.
- During 1995, Mtel more than doubled the number of one-way paging and voice messaging units in service to 1.1 million. As projected, this increase was partially offset by a decline in average monthly revenue per one-way unit from \$30.38 in 1994 to \$27.92 in 1995. Rapid growth exacerbated spectrum capacity constraints and caused higher than average churn and customer support in the 4th quarter. The company is addressing this problem in several ways, including exchanging older pagers for newer, more bandwidth-efficient versions.
- In January Mtel was in violation of its bank credit agreement primarily due to the cost of this pager exchange and higher than expected spending on the launch of the two-way network. The CFO resigned the company.
- This month Mtel sold \$50 million of 7.5% Convertible Preferred Stock to a group of investors including MS, Kleiner Perkins, and Chemical Bank, the lead bank in the company's credit agreement. The preferred is convertible into common stock at \$17.75 per share. The common is currently trading at ~\$15.50 per share.

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AUTHOR: JEAN-FRANCOIS MEEZ (LEAF)

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- MS purchased \$25 million of the 7.5% Convertible Preferred Stock. This investment is not listed in Other Assets, but is held in the "Strategic Opportunity Fund" of the Family of Funds.
- In early April, Mtel successfully renegotiated and expanded its credit agreement to \$250 million.
- Mtel is undertaking a strategic plan to enhance its value. The plan includes opening up its

technology and leveraging new devices (such as Wireless Access's new form factor) to drive traffic on the two-way network, hiring a new CEO, reducing operating expenses, selling non-strategic assets, and changing the corporate name to Skytel.

- Mtel continues to work with MS's Pegasus group on advanced narrowband PCS applications.

Santa Cruz Operation, Inc.

(Financial information shown below is the most recent available)

	Quarter Ended	Quarter Ended	Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$ 48	\$ 48	\$ 0	0 %
Cost of revenue	13	13	0	0
Gross profit	35	35	0	0
Controllable expenses	44	68	24	55
Net income	\$ (9)	\$ (33)	\$ (24)	267

- The December quarter was impacted by a non-recurring charge of \$38 million related to the acquisition of the UNIX business from Novell. For the same quarter a year before, there was (another) non-recurring charge, of \$9 million, related to the acquisition of Visionware.
- Three directors, Lars Turndal (ex-Chairman), Art Patterson (from Accel Partners) and David Norman, did not seek reelection. Two new directors, Enzo Torresi and Ronald Lachman, were elected.
- Bernard Hulme left his position as Senior VP Europe to become VP, Competitive Products. SCO had to postpone its FY95 earnings release last October when the auditors realized that the

proposed provisions did not cover the aggressive sales terms and conditions offered by SCO Europe.

- The consolidation of operations following the UnixWare acquisition resulted in the closure of engineering activities for SCO in Toronto and a workforce reduction of 60 people.
- SCO and Netscape announced a strategic agreement to create "integrated Internet-based" solutions: targets are businesses of all sizes.
- MS is currently negotiating with SCO for the sales of its shares (25% as a buy-back by SCO and 75% through Goldman Sachs), and buy-out by SCO of the Unix royalties.

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UUNET Technologies, Inc.

Financial information shown below is the most recent available)

	Quarter Ended	Quarter Ended	Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$ 10.3	\$ 33.8	\$ 23.5	228 %
Cost of revenue	8.0	3.7	(4.3)	(54)
Gross profit	2.3	30.1	27.8	1209
Controllable expenses	4.8	30.9	26.1	544
Net income	\$ (2.5)	\$ (0.8)	\$ 1.7	(68)

- UUNET's share price has fallen 63% from a peak of \$98.75 on November 20, 1995 to \$36.875 on April 11, 1996. The value of MS's \$16 million investment is now \$154 million, down 25% from the previous report. On February 27, AT&T announced plans to enter the Internet access market. This and other competitive activities have contributed to UUNET's decline.
- UUNET would have reported income of about \$1 million if the Unipalm (acquired Nov. 95) results were excluded. The above table excludes an \$11 million expense related to the Unipalm acquisition.
- UUNET currently has 543 POPs in service, including 288 outside the United States. This represents an increase from 118 total POPs last quarter due to both new installations and acquisitions.
- On April 9, UUNET acquired an additional 31% interest in UUNET Canada, Inc., for total of \$4.4 million (\$3.6 million in cash), increasing its ownership to 51%. UUNET also announced its intention to partner with the Directorate General of Telecommunications (Taiwan) to provide Internet access in Taiwan.
- UUNET canceled a secondary stock offering of 6.6 million shares due to its weak stock price. In light of this, UUNET will conserve cash by entering long term leases for European undersea optical cables and foregoing planned acquisition of these cables.

MicroUnity Systems Engineering, Inc.

(Financial statements not meaningful)

- First chips were produced in December 95, but many manufacturing issues have still to be solved (yields are still far from target). MicroUnity (MU) plans to have shippable chips in Q3 of CY96, at the earliest.
- MU raised \$10 million from Samsung in January 1996 (Series F preferred stock at \$6 per share), which gives a valuation of about \$700 million, pre-transaction. MU is still seeking for additional investors and plans to go public in Q3 if the IPO market is favorable.
- MU is currently negotiating with Motorola for licensing its technology. They also went on a roadshow in Q1 in Japan with the same purpose.
- MU manufacturing fab went on a four shifts schedule in the last week of March (from a two-shifts schedule).
- MU is in discussion with TCI for the development of cable modems; the current plan calls for the first prototype to be ready in December 1996, the first trials in Q1CY97, and for the production to start in July 1997.

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Individual, Inc.

(Financial information shown below is the most recent available)

	Quarter Ended		Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$ 3.0	\$ 4.7	\$ 1.7	57 %
Cost of revenue	1.2	2.3	1.1	92
Gross profit	1.8	4.3	2.5	139
Controllable expenses	3.0	6.0	3.0	100
Net income	\$ (1.2)	\$ (1.7)	\$ (0.5)	42

- On March 15, Individual priced an IPO for 2.3 million shares at \$14 per share. As of April 10, the stock price was \$14.75 and market value was \$210 million. MS's \$10.5 million investment is now worth \$15.5 million.
- Individual and Toshiba Corporation announced a 50/50 joint venture to form NewsWatch, a company providing customized news services in Japanese. The new company will aggregate, filter and disseminate information from Japanese sources.
- Yahoo! is partnering with Individual to provide NewsPage service to their Internet search guide and real time services.

Lightspan Partnership, Inc.

(Financial information shown below is the most recent available)

	Actual YTD	Plan YTD	Variance \$	Variance %
	Dec. 31, 1995	Dec. 31, 1995		
Net revenue	\$ 0.2	\$ 2.3	\$ (2.1)	(90) %
Cost of revenue	0.8	0.4	0.4	98
Gross profit	(0.5)	1.9	(2.5)	(128)
Controllable expenses	18.2	16.1	2.1	13
Net income	\$ (18.8)	\$ (14.2)	\$ (4.6)	NM

- On February 7, 1995, MS invested \$5 million in Lightspan Partnership, along with TCI, Comcast, Kleiner Perkins and Accel Partners. Pursuant to this transaction, MS acquired 1.67 million shares of Series B Preferred stock at \$3 per share. In total, Lightspan raised \$17.5 million to support development and marketing.
- On June 1, 1995, pursuant to the earlier commitment, MS invested an additional \$5 million. Investment in Lightspan now totals \$10 million, representing approximately 12.0% of the company.
- Financial information above is for the period January 1, 1995, through December 31, 1995. The company now has 238 employees on its payroll. Lightspan performed under plan primarily due to missing the revenue target, which was based on the old ITV business plan. The company is currently finalizing details for its 1996 budget and working to hone its 5-year plan.
- Lightspan Partnership's mission is to become a major player in the field of interactive multimedia "edutainment" and curricular software targeting the K-6 education market. Initially, the company's design focus was TV/NTSC. The company is now also focusing on porting the software to the Windows, Macintosh, and PlayStation platforms. At present, Lightspan has products on both the Windows and Macintosh platforms. Furthermore, The Lightspan Network, the company's Internet product, was successfully launched in mid-January.
- The company expects to raise an additional \$20 million in financing by mid-1996. Lightspan plans to raise \$10 million from a new investor and the other \$10 million pro rata from the existing investors.

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Metricom, Incorporated

Financial information shown below is the most recent available)

	Fiscal Year Ended		Change \$	Change %
	Dec. 31, 1994	Dec. 31, 1995		
Net revenue	\$ 21.6	\$ 5.8	\$ (15.8)	(73) %
Cost of revenue	18.3	12.5	(5.8)	(32)
Gross profit	3.3	(6.7)	(10.0)	(302)
Controllable expenses	15.1	16.8	1.7	12
Net income	\$ (11.7)	\$ (23.5)	\$ (11.8)	NM

- In March 1994, MS purchased 200,000 shares of Metricom common stock and 75,000 warrants. Fully-diluted, MS owns approximately 2% of Metricom.
- Metricom's "Ricochet" Microcellular Data Network commenced service in Cupertino in mid-1994, has completed coverage of the Silicon Valley area and has now extended to several campus networks in the Bay area. Metricom's deployment plan is to eventually cover the top 60 metropolitan areas in the US. In order to do this, the company is partnering with domestic utilities and telecommunication companies and focusing on developing vertical value added applications in areas such as healthcare and financial services.
- Losses sustained to date are primarily attributable to the continued deployment costs of the "Ricochet" network, larger infrastructure costs to scale the organization, and the phase-out of older UtiliNet products. These losses translated to \$0.96 per share and \$1.79 per share in the fiscal years ended 1994 and 1995, respectively.

Academic Systems Corporation

(Financial information shown below is the most recent available)

	Quarter Ended		Change \$	Change %
	Sep. 30, 1995	Dec. 31, 1995		
Net revenue	\$ 0.2	\$ 0.2	\$ (0.0)	(5) %
Cost of revenue	0.0	0.0	0.0	NM
Gross profit	0.2	0.2	(0.0)	(5)
Controllable expenses	2.2	2.1	(0.1)	(5)
Net income	\$ (2.0)	\$ (1.9)	\$ 0.1	NM

- In August 1994, MS invested \$4 million in Academic Systems, along with TCI, Kleiner Perkins and other prominent investors. Pursuant to this transaction, MS acquired 1,468,093 shares of Series D Preferred stock at \$2.725 per share, representing approximately a 9% stake in the company.
- Academic System's mission is to become a major player in the field of technology mediated learning systems targeting the higher education market. The company intends to leverage partnerships with universities and community colleges to offer interactive multimedia courses over networks, including departmental LANs, campus-wide WANs, and the Internet.
- Reaction to the curriculum and content continue to be favorable. Academic Systems demonstrated improved student course completion rates by 20 to 40%. Retention in courses has also improved.
- Academic Systems has installed its Interactive Mathematics software on 16 campuses, as of March 31, 1996. The company has recently signed a multi-campus, system-wide license agreement with the California State University system, which is expected to generate several millions of dollars in revenues over the next three years.

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- Additional courses and Windows versions of all courseware is planned to ship for summer and fall 1996 deployments.

- Sales have been short of plan. The lack of a Windows product and a long sales cycle have delayed the ramp in sales. As a result, additional funding of \$10 million is expected to be required in the spring of 1996.

"On Australia" Telecom JV
(Financial statements not available)

- In mid-November 1994, MS signed a joint venture agreement with Telstra. Pursuant to this agreement, MS contributed AUD\$4.5 million (approximately US\$3 million) to "On Australia," the joint venture company. On Australia is owned 50% by MS and 50% by Australian Telecom.
- A revised agreement between Telstra and Microsoft is being negotiated in which Microsoft will sell its 50% interest in the joint venture, leaving Telstra as the sole shareholder.
- Under the new relationship, all content related activities will transfer to Microsoft and On Australia will compete more broadly as an Internet access provider, continuing to focus exclusively on Microsoft tools and pointing subscribers to the MSN site.
- Microsoft will maintain a strategic relationship with On Australia in that On Australia will continue to be the primary delivery vehicle for Australian MSN content for some time.
- Microsoft will receive royalties from On Australia in the form of a flat AUD\$2.50 per subscriber per month plus 10% of access time revenues and 2% of all revenues to provide billing services.
- Although Microsoft will no longer provide funds to On Australia, an additional AUD\$1 million was invested temporarily in the joint venture by each shareholder to relieve technical insolvency. Consideration for the sale of Microsoft's shares will be AUD\$1 million, effectively returning this "bridge financing" and leaving Microsoft with an AUD\$4.5 million loss on the sale of its shares to Telstra.

Monotype Typography Limited

(Financial information shown below is the most recent available)

	Fiscal Year Ended		Change \$	Change %
	Mar. 31, 1995	Mar. 31, 1996		
Net revenue	\$ 8.5	\$ 7.5	\$ (1.0)	(12) %
Cost of revenue	2.6	1.9	(0.6)	(25)
Gross profit	5.9	5.5	(0.4)	(6)
Controllable expenses	5.3	5.0	(0.3)	(5)
Net income	\$ 0.6	\$ 0.5	\$ (0.1)	(16)

- Revenues for the fiscal year ended March 31, 1996 were about \$8 million, down 12% from the previous year. This decline was partially offset by an improvement in the company's overall revenue mix as gross profit fell only 6% in fiscal year 1996 versus the previous year due to higher margin OEM business.
- Revenues for the fourth quarter ended March 31, 1996 were \$2 million, or 6% higher than in the previous quarter. This increase was largely due to the shift in the revenue mix toward higher margin OEM business.
- Monotype's OEM business remains strong and OEM revenues are expected to increase by more than 25% in the current fiscal year, which began April 1, 1996
- In November 1995, MS concluded a restructure of its \$3 million investment. The restructure provides for long-term maintenance of the font library by Monotype. In return, each year that Monotype provides MS service, Monotype will increase its ownership per a 16-year vesting schedule.

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AUTHOR: JEAN-FRANCOIS PEE (JEANF)

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